

Hailo Network Holdings Limited

Report and Financial Statements

Year Ended

31 December 2014

Company Number 07477716

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Hailo Network Holdings Limited

Report and financial statements
for the year ended 31 December 2014

Contents

Page:

1	Strategic report
3	Report of the directors
5	Report of the independent auditors
7	Consolidated statement of comprehensive income
8	Consolidated statement of financial position
9	Company statement of financial position
10	Consolidated statement of changes in equity
11	Company statement of changes in equity
12	Consolidated statement of cash flows
13	Company statement of cash flows
14	Notes to the consolidated financial statements

Directors

C J Woolley
R Zeghibe
P Botteri
J Buttrick
M Ljungman
J Philips
A Pinnington

Registered office

Third Floor, Somerset House, The Strand, London, WC2R 1LA

Company number

07477716

Auditor

BDO LLP, 55 Baker Street, London, W1U 7EU

Hailo Network Holdings Limited

Strategic report for the year ended 31 December 2014

The directors present their strategic report with the financial statements of the company and the group for the year ended 31 December 2014.

Business review

Group trading improved in 2014 with an increase in Gross Market Value (GMV) in line with expectation in its core European markets with download and usage of the Hailo application continuing to grow strongly. Hailo continued to invest heavily in its state of the art technology during 2014, ending the year with a fully re-platformed, highly robust and cost effective architecture.

During 2014, following a full review of the economic and regulatory facts on the ground of operating in the highly fragmented North America market, the Company made the difficult decision to close down its North American operations to provide Hailo with a clear and focused strategy, positioning it to deliver a profitable business from its strong markets across Europe.

Despite the challenges of 2014, during 2015 Hailo has over-delivered on its more focused strategy, continuing to accelerate its GMV growth whilst also significantly adjusting its cost base, positioning it well for further future expansion.

Principal risks and uncertainties

The Group faces some uncertainties which could potentially have a material impact on the Group's longer term performance. Executives seek to identify material risks and put actions in place to mitigate their potential effects. A summary of the key risks is given below.

Supply risk

Hailo relies on third party licenced drivers fulfilling the demand from Hailo customers and as such, if drivers' acceptance rates of Hailo jobs drop significantly, there is a risk of adverse customer experience that ultimately could lead to some customers using the service less frequently.

At present, Hailo quality of service is at an all-time high, supported by high levels of driver engagement as we continue to innovate the driver app, adding functionality and relevance to the driver community supported by a dedicated driver team in each city.

Competitor risk

The e-hail market has raised significant capital in recent years and this has led to the potential for increasing levels of competition. However, Hailo only operates in the licenced side of the e-hail market, working with the stakeholders to build a sustainable long term solution and to mitigate the risk of new entrants the key remains to sustain the driver supply and building consumer brand loyalty based off the reliability of the taxi service.

Technology risk

The technology required to provide the Hailo service to passengers and drivers in numerous cities is extremely complex considering the individual customisation to comply with each cities' local regulations, behaviours and market conditions.

During 2014, Hailo successfully migrated its technology onto a new platform which due to systems architecture has all but fully mitigated against the key risk of technological failures and its subsequent impact on service reliability.

Hailo Network Holdings Limited

Strategic report
for the year ended 31 December 2014 (*continued*)

Principal risks and uncertainties (*continued*)

Liquidity risk

Hailo is on a growth path that requires external funding so that it can establish presence in key geographic and service markets. It invests significantly in the infrastructure required to enable the growth, whilst leaving a clear pathway to future profitability.

Up to now, this investment has been provided by external investors, but there is a risk that market conditions and business performance may have an adverse effect on our ability to do so. To mitigate this, we maintain an open and regular dialogue with our current investors on business performance whilst also regularly engaging with prospective investors to maintain a pipeline of potential future funding.

Going concern

In accordance with the requirements of UK Companies, the directors confirm that they have a reasonable expectation that the company and the Group has adequate resources to continue in operational existence. They expect to receive further funding in the near future and in the unlikely event that further funding cannot be identified, they will take any necessary steps to mitigate the risk of the business running out of cash in the foreseeable future, including but not restricted to drawing down the remainder of the current convertible loan note. For this reason, they continue to adopt the going concern basis of preparing the financial statements. For further information please refer to Note 1.

Financial key performance indicators

The Group uses a range of performance measures to monitor and manage the business effectively. The most significant of these are the key performance indicators.

The key performance indicators for the period ended 31 December 2014 are set out below.

	2014	2013
Gross market value	£100,823,000	£81,116,000
Gross profit margin %	71%	59%
Loss from continued operations	(£10,007,000)	(£11,473,000)
Cash balance	£5,871,000	£15,136,000

Gross market value, representing the total value of fares charged through the Hailo application, rose by £19,707,000 between the year ended 31 December 2013 and 2014. Gross profit margin improved from 59% to 71% over the same period. Losses from continued operations decreased to £10,007,000 from £11,473,000. Cash balance at 31 December 2014 was £5,871,000 (2013 - £15,136,000).

Approval

This strategic report was approved on behalf of the Board on


R Zeghibe
Director

23.12.2015

Hailo Network Holdings Limited

Report of the directors for the year ended 31 December 2014

The directors present their report with the financial statements of the company and the group for the year ended 31 December 2014.

Principal activity

The group is principally engaged in the development and distribution of a smartphone application that matches licenced taxi drivers to consumers wishing to hire a taxi. The group also continues to develop new ways to maximise taxi driver efficiency, and drive value for its customers.

Creditor payment policy

Payments to the group's suppliers, are made in strict accordance with the terms and conditions agreed between the group and its suppliers. Average trade creditors at the year end represented 28 days.

Directors

The directors of the company during and subsequent to the year were:

C J Woolley
R Zeghibe
P Botteri
J Buttrick
M Ljungman
J Philips
J Bregman (resigned 3 October 2014)
T Barr (appointed 3 October 2014 and resigned 12 January 2015)
A Pinnington (appointed 12 January 2015)

Hailo Network Holdings Limited

Report of the directors for the year ended 31 December 2014 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, the report of the directors 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 with International Financial Reporting Standards 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 company and the group 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;
- they have been prepared in accordance with IFRSs as adopted by the European Union;
- 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 company's and the group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement as to disclosure of information to auditor

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

Auditor

The auditor, BDO LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

On behalf of the Board


R Zeghibe
Director

Date 23/12/2014

Hailo Network Holdings Limited

Independent auditor's report

TO THE MEMBERS OF HAILO NETWORK HOLDINGS LIMITED

We have audited the financial statements of Hailo Network Holdings Limited for the year ended 31 December 2014 which comprise the consolidated statement of comprehensive income (excluding gross market place value), the consolidated and company statement of financial position, the consolidated and company statement of changes in equity, the consolidated and company statement of cash flows 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 auditors

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.

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 company's affairs as at 31 December 2014 and of the group's loss for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 disclosures made in note 1 to the financial statements concerning the company's ability to continue as a going concern. The directors acknowledge that to continue with the current cost base the Group will require a further injection of funds, within the next 3 months, or within the next 12 months if further expenditure reductions are implemented, in order to provide ongoing working and growth capital. Whilst the directors are confident that they will be able to source additional funding, they currently do not have any committed funding nor have they committed to any further cost reductions. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Hailo Network Holdings Limited

Independent auditor's report (*continued*)

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and 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.

Julian Frost

*Julian Frost (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom*

Date *23.12.15*

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

Hailo Network Holdings Limited

Consolidated statement of comprehensive income for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
GROSS MARKET PLACE VALUE (unaudited)		100,823	81,116
CONTINUING OPERATIONS			
Revenue	4	7,976	5,719
Cost of sales		(2,349)	(2,362)
Gross profit		5,627	3,357
Administrative expenses		(15,907)	(15,382)
OPERATING LOSS	6	(10,280)	(12,025)
Finance expense	7	-	(1)
Finance income	7	6	9
LOSS BEFORE TAXATION		(10,274)	(12,017)
Taxation	8	267	544
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(10,007)	(11,473)
Loss on discontinued operations	24	(11,768)	(10,113)
Loss for the financial year		(21,775)	(21,586)
Total loss attributed to:			
Owners of the parent		(21,711)	(21,492)
Non-controlling interest	16	(64)	(94)
		(21,775)	(21,586)
OTHER COMPREHENSIVE INCOME		2014 £'000	2013 £'000
Loss for the financial year		(21,775)	(21,586)
Foreign exchange translation differences		422	247
Total comprehensive loss for the year		(21,353)	(21,339)

The notes on pages 14 to 32 form part of these financial statements.

Hailo Network Holdings Limited

Consolidated statement of financial position at 31 December 2014

Company number 07477716	Note	2014 £'000	2014 £'000	2013 £'000	2013 £'000
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	10		7,342		4,658
Property, plant and equipment	11		506		911
			7,848		5,569
CURRENT ASSETS					
Trade and other receivables	14	1,177		1,897	
Cash and cash equivalents		5,871		15,136	
		7,048		17,033	
TOTAL ASSETS			14,896		22,602
EQUITY					
SHAREHOLDERS' EQUITY					
Share capital	15		-		-
Share premium	16		66,486		52,949
Other reserves	16		(3,555)		(3,555)
Retained earnings	16		(50,891)		(29,896)
Foreign exchange reserve	16		563		247
			12,603		19,745
Non-controlling interest	16		-		(132)
TOTAL EQUITY			12,603		19,613
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	17	2,293		2,989	
TOTAL LIABILITIES		2,293		2,989	
TOTAL EQUITY AND LIABILITIES			14,896		22,602

The financial statements were approved by the Board of Directors on

and were signed on its behalf

by:

R Zeghibe
Director

23.12.2015

The notes on pages 14 to 32 form part of these financial statements.

Hailo Network Holdings Limited

Company statement of financial position at 31 December 2014

<i>Company number 07477716</i>	Note	2014 £'000	2014 £'000	2013 £'000	2013 £'000
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	10		7,342		4,533
Property, plant and equipment	11		458		613
Investments	12		3,419		3,420
Loans and other receivables	13		15,475		4,618
			26,694		13,184
CURRENT ASSETS					
Trade and other receivables	14	1,721		1,291	
Cash and cash equivalents		3,882		13,690	
		5,603		14,981	
TOTAL ASSETS			32,297		28,165
EQUITY					
SHAREHOLDERS' EQUITY					
Share capital	15		-		-
Share premium	16		66,486		52,949
Retained earnings	16		(43,410)		(27,216)
TOTAL EQUITY			23,076		25,733
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	17	966		1,516	
Loans and borrowing	18	8,255		916	
TOTAL LIABILITIES		9,221		2,432	
TOTAL EQUITY AND LIABILITIES			32,297		28,165

The financial statements were approved by the Board of Directors on
by:

and were signed on its behalf

R Zeghibe
Director

23.12.2015

The notes on pages 14 to 32 form part of these financial statements.

Hailo Network Holdings Limited

Consolidated statement of changes in equity for the year ended 31 December 2014

	Called up share capital £'000	Share premium £'000	Other reserves £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total attributable to equity holders of parent £'000	Non- controlling interest £'000	Total equity £'000
Balance at 31 December 2012	-	32,745	(3,555)	-	(8,631)	20,559	(38)	20,521
Changes in equity								
Issue of share capital	-	20,204	-	-	-	20,204	-	20,204
Total loss and comprehensive loss	-	-	-	-	(21,492)	(21,492)	(94)	(21,586)
Recognised foreign exchange gain	-	-	-	849	-	849	-	849
Foreign exchange loss on net investment in foreign operations	-	-	-	(602)	-	(602)	-	(602)
Share based payment	-	-	-	-	227	227	-	227
Balance at 31 December 2013	-	52,949	(3,555)	247	(29,896)	19,745	(132)	19,613
Changes in equity								
Issue of share capital	-	13,537	-	-	-	13,537	-	13,537
Total loss and comprehensive loss	-	-	-	-	(21,711)	(21,711)	(64)	(21,775)
Recognised foreign exchange gain	-	-	-	422	-	422	-	422
Foreign exchange loss on net investment in foreign operations	-	-	-	-	-	-	-	-
Share based payment	-	-	-	-	806	806	-	806
Disposal of non-controlling interests	-	-	-	-	(196)	(196)	196	-
Loss of control of group entity	-	-	-	(106)	106	-	-	-
Balance at 31 December 2014	-	66,486	(3,555)	563	(50,891)	12,603	-	12,603

The notes on pages 14 to 32 form part of these financial statements.

Hailo Network Holdings Limited
Company statement of changes in equity
for the year ended 31 December 2014

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2012	-	32,745	(3,810)	28,935
Changes in equity				
Issue of share capital	-	20,204	-	20,204
Total loss and comprehensive loss	-	-	(23,633)	(23,633)
Share based payment	-	-	227	227
Balance at 31 December 2013	-	52,949	(27,216)	25,733
Changes in equity				
Issue of share capital	-	13,537	-	13,537
Total loss and comprehensive loss	-	-	(17,000)	(17,000)
Share based payment	-	-	806	806
Balance at 31 December 2014	-	66,486	(43,410)	23,076

The notes on pages 14 to 32 form part of these financial statements.

Hailo Network Holdings Limited

Consolidated statement of cash flows for the year ended 31 December 2014

	Note	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Cash flows from operating activities					
Cash generated from operations	21	(17,572)		(19,637)	
Interest paid		-		(2)	
Income tax received		544		-	
		<hr/>		<hr/>	
Net cash from operating activities			(17,028)		(19,639)
Cash flows from investing activities					
Purchase of intangible fixed assets		(5,989)		(3,898)	
Purchase of tangible fixed assets		(213)		(874)	
Interest received		6		9	
		<hr/>		<hr/>	
Net cash from investing activities			(6,196)		(4,762)
Cash flows from financing activities					
Amount withdrawn by directors		-		(732)	
Proceeds from the issue of share capital		13,538		20,204	
		<hr/>		<hr/>	
Net cash from financing activities			13,538		19,473
			<hr/>		<hr/>
Decrease in cash and cash equivalents			(9,686)		(4,928)
Cash and cash equivalents at beginning of year					
Exchange gains on cash and cash equivalents			15,136		19,817
			421		247
			<hr/>		<hr/>
Cash and cash equivalents at end of year			5,871		15,136
			<hr/>		<hr/>

The notes on pages 14 to 31 form part of these financial statements.

Hailo Network Holdings Limited

Company statement of cash flows for the year ended 31 December 2014

	Note	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Cash flows from operating activities					
Cash generated from operations	21	(14,107)		(22,838)	
Income tax received		544		-	
		<hr/>		<hr/>	
Net cash from operating activities			(13,563)		(22,838)
Cash flows from investing activities					
Purchase of intangible fixed assets		(6,127)		(3,759)	
Purchase of tangible fixed assets		(138)		(628)	
Increase in investments		-		(12)	
		<hr/>		<hr/>	
Net cash from investing activities			(6,265)		(4,399)
Cash flows from financing activities					
(Decrease) / Increase in amount loaned to group undertakings		(10,857)		891	
Increase in amount loaned from group undertakings		7,339		860	
Proceeds from the issue of share capital		13,538		20,205	
		<hr/>		<hr/>	
Net cash from financing activities			10,020		21,956
			<hr/>		<hr/>
Decrease in cash and cash equivalents			(9,808)		(5,281)
			<hr/>		<hr/>
Cash and cash equivalents at beginning of year			13,690		18,971
			<hr/>		<hr/>
Cash and cash equivalents at end of year			3,882		13,690
			<hr/>		<hr/>

The notes on pages 13 to 32 form part of these financial statements.

Hailo Network Holdings Limited

Notes forming part of the financial statements for the year ended 31 December 2014

1 Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The following principal accounting policies have been used consistently in the preparation of the consolidated financial statements.

The company has prepared a statement of comprehensive income, but has elected to take the exemption s408 of the Companies Act 2006 not to present the parent company statement of comprehensive income.

Changes in Accounting Policies

a) *New standards, amendments to published standards and interpretations to existing standards effective from 1 January 2014.*

No new standards, amendments to published standards or interpretations of existing standards effective from 1 January 2014 had a material impact on the financial statements.

b) *Standards and interpretations issued but not yet effective*

None of the new standards, interpretations and amendments which are effective for periods beginning after 1 January 2014, and which have not been adopted early, will have a material impact on the financial statements.

Going concern

The financial statements have been prepared on the going concern basis which assumes that the Group will have sufficient funds available to enable it to continue to trade for the foreseeable future.

The group made a loss in the period of £21,775,000 and has net assets of £12,603,000. As with many other venture capital businesses, the directors acknowledge that to continue with the current cost base the Group will require a banked injection of funds, within the next 3 months, or within the next 12 months if further expenditure reductions are implemented, in order to provide ongoing working and growth capital. Whilst the directors are confident that they will be able to source additional funding, they currently do not have any committed funding. The directors are currently reviewing funding options from a number of different sources and indications of interest from both existing and potential new shareholders to pursue. The directors have already approved a bank to coordinate the fundraising process so that in the short term they will ensure capital is available to meet the Group's cash requirements.

The Group has already made significant reductions to expenditure during 2015 such that it has extended the period over which the current cash balances will enable it to trade without raising further capital. However, the Group is currently pursuing a further injection of capital in the short term to avoid the need to seek further cuts in the operating costs of the business within the next 3 months. If the Group is unable to secure this funding, it also has other funding and corporate finance opportunities open to it that it would investigate, including the opportunity to draw a further USD\$3.9m from the convertible loan note issued after the balance sheet date (as per note 23). The directors acknowledge that the availability of additional funds from this note is subject to conditions and the various corporate finance opportunities are not yet committed. If the group is unable to secure additional funding from one or more of these sources, either in the next 3 months with its current cost base or within the next 12 months if additional expenditure reductions are made, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Hailo Network Holdings Limited

Notes forming part of the financial statements for the year ended 31 December 2014

1 Accounting policies (continued)

Going concern (continued)

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustment that may be required if the Group was unable to continue as a going concern.

Basis of consolidation

Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. 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.

Non-controlling interest

The total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests.

Revenue recognition

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for services provided, excluding VAT, rebates, and trade discounts.

Gross marketplace value is the gross sum of all transactions billed to customers before payments are made to taxi drivers. The Group is acting as an agent as it does not have exposure to the significant risks and rewards associated with the rendering of its services. The Group earns a predetermined fee on a per transaction basis, which is included in the amount billed to the customer, therefore only net revenue amounts are recognised in the financial statements. Revenue is recognised at the point of sale.

Intangible fixed assets

Expenditure on internally developed products is capitalised if it can be demonstrated that:

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

Capitalised development costs are amortised over the periods the Group expects to benefit from utilising the products developed. The amortisation expense is included within the administrative expenses in the consolidated statement of comprehensive income.

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

Amortisation is provided at the following annual rates in order to write off each asset over its estimated useful economic life:

33% straight line.

Hailo Network Holdings Limited

Notes forming part of the financial statements for the year ended 31 December 2014 (continued)

1 Accounting policies (continued)

Property, plant and equipment

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

Plant and machinery	- 25% on cost
Computer equipment	- 25% on cost
Fixtures and fittings	- 25% on cost
Lease hold improvements	- 25% on cost

Share-based payments

Where equity settled share options are awarded to employees, 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.

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the statement of financial position date.

A deferred tax asset is recognised in respect of tax losses carried forward where it is a more likely than not that there will be taxable profit in the foreseeable future against which the asset can be offset. A deferred tax asset is not recognised where there is insufficient evidence of short term recoverability. Deferred tax balances are not discounted.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the statement of financial position date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Accounting estimates and judgements

The key balances to which estimates and judgements have been applied are as follows:

Depreciation - depreciation is charged at varying rates as set out above. The charges applying for the year are set out in Note 11.

Amortisation - amortisation is charged at varying rates as set out above. The charges applying for the year are set out in Note 10.

Share based payments - share based payments are recorded subject to fair values as assessed by management. The values that have been assumed are set out in Note 22.

Hailo Network Holdings Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

2 Financial instruments

In common with other businesses, the Group is exposed to the 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.

(i) Principle financial instruments

The principle financial instruments used by the Group, from which financial instruments risk arises, are as follows:

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

(ii) Financial instruments by category

A summary of financial instruments held by category is provided below:

	Loans and receivables	
	2014	2013
	£'000	£'000
Cash and cash equivalents	5,871	15,136
Trade and other receivables	676	856
	<hr/>	<hr/>
Total financial assets	6,547	15,992
	<hr/>	<hr/>
	Financial liabilities at amortised costs	
	2014	2013
	£'000	£'000
Trade and other payables	2,293	2,989
	<hr/>	<hr/>
Total financial liabilities	2,293	2,989
	<hr/>	<hr/>

Hailo Network Holdings Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

3 Risk management

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 implementing those objectives and policies to the Group's finance function. The Board receives regular reporting from the Group Financial team, which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital employed by the Group is composed of equity attributable to the shareholders, as detailed in the statement of changes in equity.

Liquidity risk

The group manages its cash in order to meet its working capital requirements.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

Group	Up to 3 months
At 31 December 2014	£'000
Trade and other payables	2,293
Total	2,293
	Up to 3 months
At 31 December 2013	£'000
Trade and other payables	2,989
Total	2,989

Hailo Network Holdings Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

3 Risk management (*continued*)

Company	Up to 3 months £'000	Over 5 years £'000
At 31 December 2014		
Trade and other payables	966	-
Loans and borrowings	-	8,255
Total	966	8,255
At 31 December 2013		
Trade and other payables	1,516	-
Loans and borrowings	-	916
Total	1,516	916

Credit risk

The group's standard terms are to receive all payments from customers via credit cards. This means there is minimal credit risk as its carrying no trade debtors. This does however, create a risk of fraudulent transactions, which are being managed through technical and human intervention, and appropriate provisions have been made in the accounts.

Cash in bank

Group

Cash at the year end was held with the following institutions:

	Rating* at 31 December 2014 £'000	Balance at 31 December 2014 £'000	Rating* at 31 December 2013 £'000	Balance at 31 December 2013 £'000
NatWest	BBB+	4,506	A-	14,030
Santander UK	A	10	A	15
Bank of Ireland	BBB-	953	BB+	328
Santander Spain	BBB	236	BBB	148
JP Morgan CHASE	A	148	A+	311
RBC	AA-	-	AA-	273
Mitsubishi UFJ	A-	18	A+	31
		5,871		15,136

*Rating from Standard & Poor's

Hailo Network Holdings Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

3 Risk management (*continued*)

Company	Rating* at 31 December 2014 £'000	Balance at 31 December 2014 £'000	Rating* at 31 December 2013 £'000	Balance at 31 December 2013 £'000
NatWest	BBB+	3,882	A-	13,690

Foreign exchange risk

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency.

The Group's policy is, where possible, to allow group entities to settle liabilities denominated in their financial currency with cash generated from their own operations in that currency.

In order to monitor the continuing effectiveness of this policy, the Board receives a monthly forecast, analysed by the major currencies held by the Group, of liabilities due for settlement and expected cash reserves.

As at 31 December the Group's net exposure to foreign exchange risk was as follows:

	2014 £'000	2013 £'000
Net foreign currency financial assets		
Euro	3,345	584
US Dollar	419	9,262
Other	34	481
Total net exposure	3,798	10,327

The effect of a 20% strengthening of the US Dollar against Sterling at the reporting date, all other variables held constant, have resulted in an increase in post-tax loss for the year and decrease of net assets of £83,800 (2013 - £1,798,000). A 20% weakening in the exchange rate would, on the same basis, have an equal and opposite effect on post-tax loss and net assets.

The effect of a 20% strengthening of the Euro against Sterling at the reporting date, all other variables held constant, have resulted in an increase in post-tax losses for the year and decrease in net assets of £669,000 (2013 - £16,000). A 20% weakening in the exchange rate would, on the same basis, have an equal and opposite effect on post-tax loss and net assets.

Hailo Network Holdings Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

4 Analysis of revenue by geographical location

	2014 £'000	2013 £'000
United Kingdom	3,836	4,039
Ireland	3,750	1,634
USA	611	223
Canada	672	447
Spain	390	47
	<u>9,259</u>	<u>6,390</u>

The above note contains revenue from both continued and discontinued operations.

5 Employees and directors

	2014 £'000	2013 £'000
Staff costs consist of:		
Wages and salaries	6,596	6,718
Social security costs	669	409
	<u>7,265</u>	<u>7,127</u>

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

	Number	Number
	<u>158</u>	<u>165</u>

	2014 £'000	2013 £'000
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Directors' remuneration	<u>500</u>	<u>468</u>
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Information regarding the highest paid director for the year ended 31 December 2014 is as follows:

Highest paid director	<u>250</u>	<u>158</u>
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No director accrued benefits under any share-based payment scheme.

Hailo Network Holdings Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

6	Operating loss	2014	2013
		£'000	£'000
	This has been arrived at after charging:		
	Depreciation - owned assets	395	147
	Development costs amortisation	3,305	1,470
	Operating lease expense - property	832	689
	Auditors' remuneration:		
	- audit	102	119
	- taxation	56	43
	Foreign exchange differences	235	362
	Share based payment remuneration expense	806	227
	Loss on disposal of fixed assets	223	-
		<hr/>	<hr/>
7	Finance income and expense	2014	2013
		£'000	£'000
	Finance income:		
	Bank interest	6	9
		<hr/>	<hr/>
	Finance expense:		
	Bank interest	-	1
		<hr/>	<hr/>
	Net finance income	6	8
		<hr/>	<hr/>

Hailo Network Holdings Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

8 Taxation

	2014 £'000	2013 £'000
Current tax expense		
Current tax on profits for the year	-	-
Adjustments in respect of prior periods	(267)	(544)
	<u> </u>	<u> </u>
Total tax credit	(267)	(544)
	<u> </u>	<u> </u>

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

	2014 £'000	2013 £'000
Loss for the year	(22,042)	(22,131)
	<u> </u>	<u> </u>
Expected tax charge based on the standard rate of United Kingdom corporation tax at the domestic rate of 21.50% (2013 - 23.25%).	(4,739)	(5,145)
Effects of:		
Expenses not deductible for tax purposes	1,544	416
Depreciation (in excess of)/less than capital allowances	748	(38)
Different tax rates applied in overseas jurisdictions	-	(39)
Losses carried forwards	2,447	4,858
Brought forward losses utilised	-	(52)
Adjustment for over provision in previous periods	(267)	(544)
	<u> </u>	<u> </u>
Total tax credit	(267)	(544)
	<u> </u>	<u> </u>

No deferred tax asset has been recognised on historical losses to date.

The Group has taxable losses carried forward of £22,537,000 (2013 - £12,709,000) and has a potential deferred tax asset of £4,419,000 (2013 - £2,542,000). This asset has not been recognised as there is currently insufficient visibility over future profitability to support recognition of the balance.

No liability for corporation tax arose on ordinary activities for the year ended 31 December 2014 nor for the period ended 31 December 2013.

Hailo Network Holdings Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

9 Loss of parent company

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was £17,000,000 (2013 - £23,633,000).

10 Intangible assets

Group and company	Group Development costs £'000	Company Development costs £'000
<i>Cost</i>		
At 1 January 2014	6,848	6,710
Additions	5,989	6,127
	<hr/>	<hr/>
At 31 December 2014	12,837	12,837
	<hr/>	<hr/>
<i>Amortisation</i>		
At 1 January 2014	2,190	2,177
Amortisation for year	3,305	3,318
	<hr/>	<hr/>
At 31 December 2014	5,495	5,495
	<hr/>	<hr/>
<i>Net book value</i>		
At 31 December 2014	7,342	7,342
	<hr/>	<hr/>
At 31 December 2013	4,658	4,533
	<hr/>	<hr/>

Hailo Network Holdings Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

11 Property, plant and equipment

Group	Plant and machinery £'000	Leasehold improvements £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
<i>Cost</i>					
At 1 January 2014	4	195	315	575	1,089
Additions	1	117	13	82	213
Disposals	-	(68)	(79)	(232)	(379)
At 31 December 2014	5	244	249	425	923
<i>Depreciation</i>					
At 1 January 2014	1	12	34	131	178
Charge for year	1	119	94	181	395
Disposals	-	(5)	(22)	(129)	(156)
At 31 December 2014	2	126	106	183	417
<i>Net book value</i>					
At 31 December 2014	3	118	143	242	506
At 31 December 2013	3	183	281	444	911
Company					
		Leasehold improvements £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
<i>Cost</i>					
At 1 January 2014		181	221	318	720
Additions		61	13	65	138
At 31 December 2014		242	234	383	858
<i>Depreciation</i>					
At 1 January 2014		10	23	74	107
Charge for year		116	82	95	293
At 31 December 2014		126	105	169	400
<i>Net book value</i>					
At 31 December 2014		116	128	213	458
At 31 December 2013		171	198	244	613

Hailo Network Holdings Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

12 Investments

Company	Shares in group undertakings £'000
<i>Cost</i>	
At 1 January 2014	3,610
Disposals	(125)
	3,485
<i>Impairment</i>	
At 1 January 2014	(190)
Release	124
	(66)
	3,419
At 31 December 2013	3,420

During the year Hailo Network Canada Inc went into administration. The investment and corresponding provision have been released.

The following were subsidiary undertakings of the company:

Subsidiary	Country of incorporation	Proportion of ownership interest
Hailo Network Ltd	United Kingdom	100% of ordinary share capital
Hailo Network USA Inc	USA	100% of ordinary share capital
Hailo Network Ireland Ltd	Ireland	100% of ordinary share capital
Hailo Network Japan Co.	Japan	100% of ordinary share capital
Hailo Network Iberia	Spain	100% of ordinary share capital

The investments held in Hailo Network USA Inc and Hailo Network Japan Co have been fully provided for at year end.

13 Loans and other receivables

Company	2014 £'000	2013 £'000
Amounts due from group undertakings	15,475	4,618
	15,475	4,618

All loans from the Parent to other Group Undertakings are made on a non-arm's length basis, are interest free and are held on the basis that there is no fixed date of repayment.

Hailo Network Holdings Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

14 Trade and other receivables

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Trade receivables	503	604	-	-
Other receivables	173	220	98	6
VAT	-	32	1,138	491
Prepayments	234	497	218	250
Corporation tax recoverable	267	544	267	544
	<u>1,177</u>	<u>1,897</u>	<u>1,721</u>	<u>1,291</u>

15 Share capital

	A Pref. Shares No.	A Ord. Shares No.	B Pref. Shares No.	B Ord. Shares No.	C Pref. Shares No.	C Ord. Shares No.	D Pref. Shares No.
At 1 January 2014	424,065	219,071	645,265	822,652	514,163	100,122	494,051
Issued	-	-	-	-	-	30,076	385,975
Transferred	-	-	-	-	-	(11,266)	-
At 31 December 2014	424,065	219,071	246,265	822,652	514,163	118,932	880,026
	Deferred Shares No.	Total No.					
At 1 January 2014	-	3,219,389					
Issued	-	416,051					
Transferred	11,266	-					
At 31 December 2014	11,266	3,635,440					

The nominal value of all shares in issue is £0.000001. All shares attract equal voting rights except C ordinary and deferred shareholders which are not entitled to vote.

In the event of the winding up of the company any surplus assets of the company remaining after discharge of liabilities shall be applied in the following order:

- i) D preference shareholders
- ii) A preference, B preference and C preference shareholders
- iii) A ordinary, B ordinary, C ordinary and deferred shareholders

On 30 April 2014 a conversion was made to re-designate 11,266 C Ordinary shares to deferred shares upon the termination of a shareholding employee in accordance with the Articles of Association.

Hailo Network Holdings Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

16 Reserves

Reserve description

Share premium	The Share Premium reserve includes the difference between the value of the shares on issue and their nominal value.
Other reserves	The Other Reserves includes the market value adjustment that relates to the issue of shares in Hailo Network Holdings Ltd to replace the non-controlling interest held in Hailo Network Ltd that was acquired during the year.
Non-controlling Interest	The Non-Controlling Interest at the year end of £Nil (2013 - £131,914) relates to an 8% minority shareholding in Hailo Network Canada Inc.
Retained earnings	The cumulative profit and loss reserve.
Foreign exchange reserve	The differences arising on retranslating the net assets of overseas operations into the functional currency.

17 Trade and other payables

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Current:				
Trade payables	1,053	1,558	635	1,011
Social security and other taxes	358	378	-	12
Other creditors	70	171	40	95
VAT	163	-	-	-
Accrued expenses	649	882	291	398
	<u>2,293</u>	<u>2,989</u>	<u>966</u>	<u>1,516</u>

18 Loans and borrowings

	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Amounts due to group undertakings	-	-	8,255	916
	<u>-</u>	<u>-</u>	<u>8,255</u>	<u>916</u>

All loans from the Parent to other Group Undertakings are made on a non-arm's length basis which are interest free and are held on the basis that there is no fixed date of repayment.

Hailo Network Holdings Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

19 Operating leases

The group and company maintains a mixed portfolio of leased properties. The group's term of property leases vary from country to country.

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

Group	2014 £'000	2013 £'000
Within one year	756	847
Between one and five years	1,801	1,527
	<u>2,557</u>	<u>2,374</u>
Company		
Within one year	654	641
Between one and five years	1,735	1,122
	<u>2,389</u>	<u>1,763</u>

20 Related party transactions

At the balance sheet date the amounts due from group undertakings were as follows:

	2014 £'000	2013 £'000
Hailo Network Ltd	10,659	2,303
Hailo Network Ireland Ltd	2,371	809
Hailo Network Iberia	2,445	1,506
	<u>15,475</u>	<u>4,618</u>

All loans from the Parent to other Group Undertakings are made on a non-arm's length basis, are interest free and are held on the basis that there is no fixed date of repayment.

At the balance sheet date the amounts due to group undertakings were as follows:

	2014 £'000	2013 £'000
Hailo Network Ireland Ltd	1,075	413
Hailo Network Ltd	7,126	497
Hailo Network Iberia	54	6
	<u>8,255</u>	<u>916</u>

Hailo Network Holdings Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

20 Related party transactions (*continued*)

During the year the company charged management fees to the following group undertakings:

	2014 £'000	2013 £'000
Hailo Network Ireland Ltd	1,388	-
Hailo Network Ltd	1,839	-
Hailo Network Iberia	166	-

The details of directors' remuneration are given in note 5.

21 Reconciliation of loss before income tax to cash generated from operations

Group	2014 £'000	2013 £'000
Loss before income tax	(22,042)	(22,131)
Depreciation and amortisation charges	3,700	1,617
Finance expense	-	2
Finance income	(6)	(9)
Loss on disposal of property, plant and equipment	223	-
Share based payment	806	227
	<u>(17,319)</u>	<u>(20,294)</u>
Decrease / (Increase) in trade and other receivables	443	(850)
(Decrease) / Increase in trade and other payables	(696)	1,507
	<u>(17,572)</u>	<u>(19,637)</u>
	<u>(17,572)</u>	<u>(19,637)</u>
	<u>(17,572)</u>	<u>(19,637)</u>
Company	2014 £'000	2013 £'000
Loss before income tax	(17,267)	(23,633)
Depreciation and amortisation charges	3,611	1,543
Impairment of investment	-	190
Share based payment	806	227
	<u>(12,850)</u>	<u>(21,673)</u>
Increase in trade and other receivables	(707)	(1,271)
(Decrease) / Increase in trade and other payables	(550)	106
	<u>(14,107)</u>	<u>(22,838)</u>
	<u>(14,107)</u>	<u>(22,838)</u>
	<u>(14,107)</u>	<u>(22,838)</u>

Hailo Network Holdings Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 *(continued)*

22 Share-based payment transactions

Where equity settled share options are awarded to employees, 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. The vesting criteria are dependent on length of service, continued employment with the group and the occurrence of future uncertain events.

	2014 Weighted average exercise price (£)	2014 Number	2013 Weighted average exercise price (£)	2013 Number
Outstanding at 1 January	6.95	159,524	6.36	145,668
Granted during the year	14.09	161,862	13.23	13,856
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at 31 December	10.55	321,386	6.95	159,524
	<hr/>	<hr/>	<hr/>	<hr/>

The exercise price of options outstanding at 31 December 2014 ranged between £1.67 and £14.09 (2013 - £1.67 and £13.23) and their weighted average contractual life was 4 years (2013 - 4 years).

Of the total number of options outstanding at 31 December 2014, 81,792 (2013 - 80,074) had vested and were exercisable.

The weighted average fair value of each option granted during the year was £14.09 (2013 - £13.23).

The following information is relevant in the determination of the fair value of options granted during the year under the equity- and cash-settled share based remuneration schemes operated by the Group.

	2014 £'000	2013 £'000
Option pricing model used	Black-Scholes	Black-Scholes
Weighted average share price at grant date (in £)	14.09	13.23
Exercise price (in £)	-	-
Weighted average contractual life (in years)	4.0	4.0
Expected volatility	55%	55%
Risk-free interest rate	0.33%	0.33%

The concluded equity volatility was based on guideline company indications. The risk-free rate was based on the rate of treasury securities with the same term as the option.

Hailo Network Holdings Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (continued)

22 Share-based payment (continued)

The share-based remuneration expense (note 6) comprises:

	2014 £'000	2013 £'000
Equity-settled schemes	806	227

The Group did not enter into any share-based payment transactions with parties other than employees during the current or previous period.

23 Ultimate controlling party

As at 31 December 2014, the Group has no ultimate controlling party.

24 Discontinued operations

The post-tax loss on disposal of discontinued operations was determined as follows:

	2014 £'000	2013 £'000
Revenue	1,283	670
Cost of sales	(949)	(1,004)
Administrative expenses	(12,084)	(9,778)
Finance income and expenses	(1)	(1)
Loss before tax	(11,751)	(10,113)
Tax expense	(17)	-
Loss for the year	<u>(11,768)</u>	<u>(10,113)</u>

The statement of cash flows includes the following amounts relating to discontinued operations:

	2014 £'000	2013 £'000
Operating activities	(11,768)	(10,113)
Investing activities	(174)	(392)
Financing activities	-	-
	<u>(11,942)</u>	<u>(10,505)</u>