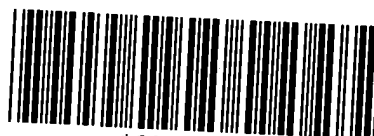


FATHOM SYSTEMS GROUP LIMITED
ANNUAL REPORT AND FINANCIAL
STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

TUESDAY



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SCT 22/10/2019 #327
COMPANIES HOUSE

FATHOM SYSTEMS GROUP LIMITED

COMPANY INFORMATION

Directors	Mr G Kerr Mr E A D MacKinnon Mr J McPherson
Company number	SC490754
Registered office	Union Plaza 1 Union Wynd ABERDEEN AB10 1DQ
Auditor	Johnston Carmichael LLP Bishop's Court 29 Albyn Place ABERDEEN AB10 1YL

FATHOM SYSTEMS GROUP LIMITED

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FATHOM SYSTEMS GROUP LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their annual report and financial statements for the year ended 31 December 2018.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr G Kerr

Mr E A D MacKinnon

Mr R P Hall

Mr J McPherson

(Resigned 11 December 2018)

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the auditor of the company is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the auditor of the company is aware of that information.

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

On behalf of the board



Mr G Kerr

Director

16 OCT 2019

FATHOM SYSTEMS GROUP LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

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 with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 group and company will continue in business.

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

FATHOM SYSTEMS GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FATHOM SYSTEMS GROUP LIMITED

Opinion

We have audited the financial statements of Fathom Systems Group Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the group statement of income and retained earnings, the group balance sheet, the company balance sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

FATHOM SYSTEMS GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF FATHOM SYSTEMS GROUP LIMITED

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and parent 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 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the directors' report and take advantage of the small companies exemption from the requirement to prepare a strategic report.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

FATHOM SYSTEMS GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF FATHOM SYSTEMS GROUP LIMITED

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's or the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of our report

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.

Johnston Carmichael LLP

Stephen McIlwaine (Senior Statutory Auditor)
for and on behalf of Johnston Carmichael LLP

Chartered Accountants
Statutory Auditor

21 October 2019

Bishop's Court
29 Albyn Place
ABERDEEN
AB10 1YL

FATHOM SYSTEMS GROUP LIMITED

GROUP STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	£	£
Turnover	3,516,505	5,028,195
Cost of sales	(2,261,219)	(3,570,935)
	<hr/>	<hr/>
Gross profit	1,255,286	1,457,260
Administrative expenses	(1,810,908)	(1,659,321)
	<hr/>	<hr/>
Operating loss	(555,622)	(202,061)
Interest receivable and similar income	30	14
Interest payable and similar expenses	(702,792)	(540,963)
	<hr/>	<hr/>
Loss before taxation	(1,258,384)	(743,010)
Taxation	4	48,406
	<hr/>	<hr/>
Loss for the financial year	(1,297,424)	(694,604)
Retained earnings at 1 January 2018	(2,180,672)	(1,486,068)
	<hr/>	<hr/>
Retained earnings at 31 December 2018	<u>(3,478,096)</u>	<u>(2,180,672)</u>

The Group Statement of Income and Retained Earnings has been prepared on the basis that all operations are continuing operations.

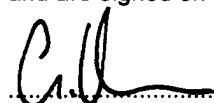
FATHOM SYSTEMS GROUP LIMITED

GROUP BALANCE SHEET AS AT 31 DECEMBER 2018

	Notes	2018 £	£	2017 £	£
Fixed assets					
Goodwill	5	2,042,005		2,382,339	
Other intangible assets	5	1,017,478		796,489	
Total intangible assets		3,059,483		3,178,828	
Tangible assets	6	109,738		123,221	
		3,169,221		3,302,049	
Current assets					
Stocks		669,393		628,062	
Debtors	9	1,078,524		1,224,211	
Cash at bank and in hand		11,607		111,706	
		1,759,524		1,963,979	
Creditors: amounts falling due within one year	10	(5,794,861)		(1,055,898)	
Net current (liabilities)/assets			(4,035,337)		908,081
Total assets less current liabilities			(866,116)		4,210,130
Creditors: amounts falling due after more than one year	11		(10,867)		(3,855,745)
Provisions for liabilities	13		(190,502)		(124,446)
Net (liabilities)/assets			(1,067,485)		229,939
Capital and reserves					
Called up share capital	16	4,824		4,824	
Share premium account		2,405,787		2,405,787	
Profit and loss reserves		(3,478,096)		(2,180,672)	
Total equity			(1,067,485)		229,939

These financial statements have been prepared in accordance with the provisions applicable to groups and companies subject to the small companies' regime.

The financial statements were approved by the board of directors and authorised for issue on 16 Oct. 2019 and are signed on its behalf by:



Mr G Kerr
Director

FATHOM SYSTEMS GROUP LIMITED

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	2018 £	£	2017 £	£
Fixed assets					
Investments	7		2,721,587		5,021,587
Current assets					
Debtors	9	754,746		583,746	
Cash at bank and in hand		7,836		1,864	
		<u>762,582</u>		<u>585,610</u>	
Creditors: amounts falling due within one year	10	<u>(5,042,993)</u>		<u>(505,105)</u>	
Net current (liabilities)/assets			<u>(4,280,411)</u>		<u>80,505</u>
Total assets less current liabilities			<u>(1,558,824)</u>		<u>5,102,092</u>
Creditors: amounts falling due after more than one year	11		-		(3,838,668)
Net (liabilities)/assets			<u><u>(1,558,824)</u></u>		<u><u>1,263,424</u></u>
Capital and reserves					
Called up share capital	16		4,824		4,824
Share premium account			2,405,787		2,405,787
Profit and loss reserves			<u>(3,969,435)</u>		<u>(1,147,187)</u>
Total equity			<u><u>(1,558,824)</u></u>		<u><u>1,263,424</u></u>

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes. The company's loss for the year was £2,822,248 (2017 - £421,684 loss).

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the board of directors and authorised for issue on 16 Oct. 2019 and are signed on its behalf by:



Mr G Kerr
Director

Company Registration No. SC490754

FATHOM SYSTEMS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

Company information

Fathom Systems Group Limited ("the company") is a private company limited by shares, incorporated and domiciled in Scotland. The registered office is Union Plaza, 1 Union Wynd, Aberdeen, AB10 1DQ. The principal place of business is Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, AB12 4YD.

These consolidated financial statements include the financial statements of Fathom Systems Group Limited and its subsidiary undertaking (collectively known as "the group"), drawn up to 31 December 2018.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006 as applicable to companies subject to the small companies regime. The disclosure requirements of Section 1A of FRS 102 have been applied, other than where additional disclosures are required to show a true and fair view.

The financial statements are prepared in sterling, which is the functional currency of the group. Monetary amounts in these financial statements are rounded to the nearest pound.

The financial statements have been prepared on the historical cost convention. The principal accounting policies adopted are set out below.

1.2 Basis of consolidation

The consolidated financial statements incorporate those of Fathom Systems Group Limited and all of its subsidiaries (ie entities that the group controls through its power to govern the financial and operating policies so as to obtain economic benefits). Subsidiaries acquired during the year are consolidated using the purchase method. Their results are incorporated from the date that control passes.

All financial statements are made up to 31 December 2018. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

FATHOM SYSTEMS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.3 Going concern

The group has reported a loss of £1,297,424 (2017: loss of £694,604) and the consolidated balance sheet shows net current liabilities of £4,035,337 (2017: net current assets of £908,081) and net liabilities of £1,067,485 (2017: net assets of £229,939). Within the group's liabilities at 31 December 2018, are over £5 million in amounts due to the parent company's significant shareholder (2017: £4.3 million). It is noted that these amounts are shown as current at 31 December 2018, with £4.4m relating to loan notes which mature in December 2019 and the balance relating to loan notes that were repayable in October 2016, but have been carried forward with the approval of the significant shareholder, until such times as the group has the ability to repay.

The directors have received a letter of support from the parent company's significant shareholder confirming their intention to support the parent company, both financially and otherwise, for a period of at least twelve months from the date of signing these financial statements. This support is considered critical for the directors in making their going concern assessment for the group, given the parent company has provided a letter of support to its trading subsidiary, Fathom Systems Limited, on the back of the letter of support it has received from the significant shareholder. The support from the significant shareholder also includes the deferral of amounts due to them until such times as the group has the ability to repay.

In making their assessment, the directors have also considered the underlying financial projections of the trading subsidiary and consider there is sufficient working capital to enable trading and meeting liabilities as they fall due, for a period of at least twelve months from the date of signing these financial statements. Part of this assessment includes a reasonable expectation over the continued availability of the subsidiary company's overdraft facility, despite it currently being under renewal with the bank. The renewal discussions with the bank have been positive and the directors are confident the overdraft facility will be renewed, albeit it will be subject to further renewals over the next twelve months from the date of signing these financial statements. While the directors consider their bankers to be supportive and have a reasonable expectation of further renewals of the overdraft facility, as required over the next twelve months beyond the date of signing these financial statements, there is no guarantee of this. However, the directors do not consider this to be a material uncertainty when considering going concern applicability on the basis that alternative resources could be made available from the parent company's significant shareholder.

The directors have considered this information and at the time of approving these financial statements, have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. As such, the directors continue to adopt the going concern basis of accounting in preparing these financial statements.

1.4 Turnover

Turnover represents amounts receivable for the sale of equipment and provision of mechanical engineering services, net of VAT and trade discounts.

Turnover from contracts for the provision of mechanical engineering services is recognised by reference to the stage of completion when the stage of completion, costs incurred and costs to complete can be estimated reliably. The stage of completion is calculated by comparing costs incurred, mainly in relation to contractual hourly staff rates and materials, as a proportion of total costs. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Turnover from the sale of equipment is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on delivery of the machinery), the amount of turnover can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the company and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

FATHOM SYSTEMS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.5 Research and development expenditure

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that its technical, commercial and financial feasibility can be demonstrated.

1.6 Intangible fixed assets - goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of net assets acquired. It is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is considered to have a finite useful life and is amortised on a systematic basis over its expected life, which is 10 years.

1.7 Intangible fixed assets other than goodwill

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Development expenditure	20% on cost
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1.8 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Land and buildings leasehold	20% on cost
Plant and machinery	33% on reducing balance
Fixtures, fittings and equipment	20% on cost
Motor vehicles	25% on reducing balance

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the profit and loss account.

1.9 Fixed asset investments

Subsidiary investments are measured at cost less any provision for impairment.

1.10 Impairment of fixed assets

At each reporting end date, the group and company review the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any) by comparing this to the asset's carrying value. The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of future cash flows before interest and tax, obtained as a result of the asset's continued use.

1.11 Stocks

Stocks and work in progress are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

FATHOM SYSTEMS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

1.12 Cash and cash equivalents

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.13 Financial instruments

The group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the group's balance sheet when the group becomes party to the contractual provisions of the instrument.

Basic financial assets

Basic financial assets, which include trade and other debtors, cash and bank balances and amounts due from fellow group companies at parent company level are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not discounted.

The effective interest rate is the rate that exactly discounts estimated future cash receipts / payments through the expected life of the instrument to the net carrying amount on initial recognition.

Classification of financial assets

Financial assets are classified into specific categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of negotiations.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Classification of financial liabilities

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.

FATHOM SYSTEMS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

Basic financial liabilities

Basic financial liabilities, including trade and other creditors and bank loans and overdrafts, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial liabilities classified as payable within one year are not discounted.

Basic financial liabilities are subsequently carried at amortised cost, using the effective interest rate method.

Trade and other creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Derecognition of financial liabilities

Financial liabilities are derecognised when the group's contractual obligations expire or are discharged or cancelled.

1.14 Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the group.

1.15 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Any tax credits resulting from research and development activities are recognised when the directors have clarity over the value of these and a claim has been made to the tax authority.

Deferred tax

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not they will be recovered. Deferred tax assets and liabilities are not discounted.

1.16 Provisions

Provisions are recognised when the group has a legal or constructive present obligation as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value, the unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

FATHOM SYSTEMS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.17 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

1.18 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1.19 Share-based payments

The group issues equity settled share-based payments to certain employees. The fair value of equity-settled share based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the group's estimate of shares or options that will eventually vest. With the recognition of an expense there is also a corresponding increase in equity. The fair value of options is measured using a pricing model.

When the terms and conditions of equity-settled share-based payments at the time they were granted are subsequently modified, the fair value of the share-based payment under the original terms and conditions and under the modified terms and conditions are both determined at the date of the modification. Any excess of the modified fair value over the original fair value is recognised over the remaining vesting period in addition to the grant date fair value of the original share-based payment. The share-based payment expense is not adjusted if the modified fair value is less than the original fair value.

Cancellations or settlements (including those resulting from employee redundancies) are treated as an acceleration of vesting and the amount that would have been recognised over the remaining vesting period is recognised immediately.

1.20 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the assets fair value at the date of inception and the present value of the minimum lease payments. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to the profit and loss account so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

1.21 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the profit and loss account for the period.

FATHOM SYSTEMS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.22 Long term contracts

Amounts recoverable on long term contracts, which are included in debtors, are stated at the net sales value of the work done after provision for contingencies and anticipated future losses on contracts, less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account.

At each reporting date, an assessment is made for impairment. Any losses on contracts are recognised when identified in profit or loss.

FATHOM SYSTEMS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

2 Judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

The following are considered to be either judgements that have had the most significant effect on the amounts recognised in the financial statements, or estimates that are dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date:

Amortised cost calculations with respect to loan notes

Determining the amortised cost of the group's loan notes requires judgement in assessing interest payments and the effective interest rate. Management have reviewed the amortised cost calculations and are comfortable with the assumptions used.

Contracts for rendering of services (long term contracts)

Management assess the stage of completion for each long term contract on an ongoing basis, in order to allocate an appropriate level of turnover within each given period, which is a significant judgement exercised by management. This is performed by individuals with relevant experience to enable them to make such judgements.

Accounting for long term contracts impacts on a number of account balances within the company's financial statements, beyond turnover. Turnover, cost and ultimately profit recognition in respect of these contracts require management to make estimations on the outcome of these which require judgement. Balance sheet accounts including trade debtors, amounts recoverable on contracts, stock and work in progress and accruals are all impacted by management's assessment on the outcome of the company's long term contracts.

Development expenditure

As disclosed within the accounting policies, the company capitalises development expenditure in line with the requirements of Section 18 *Intangible Assets other than Goodwill*, of FRS 102. This involves the demonstration of technical, commercial and financial feasibilities of each project, which involves judgement by appropriate management. Management consider the net book value of capitalised development expenditure at the balance sheet date is fairly stated and will be recovered through the future economic benefits derived from these projects.

Goodwill

The group establishes a reliable estimate of the useful life of goodwill arising on business combinations. This estimate is based on a variety of factors such as expected use of the acquired business and the expected useful life of the cash generating units to which the goodwill is attributed.

Carrying value of subsidiary investment (company only)

Management have considered the carrying value of the parent company's subsidiary investment and considered there to be an indicator of impairment and as such an impairment review was undertaken. Further detail of this is given within note 7 and an impairment loss of £2.3m was recognised within the company only financial statements.

The directors consider that there are no other judgements, estimates and underlying assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities.

FATHOM SYSTEMS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

3 Employees

The average monthly number of persons (including directors) employed by the group and company during the year was:

	Group 2018 Number	2017 Number	Company 2018 Number	2017 Number
Total employees	33	36	1	1

4 Taxation

	2018 £	2017 £
Current tax		
UK corporation tax on profits for the current period	-	(60,000)
Adjustments in respect of prior periods	(9,614)	-
Total current tax	(9,614)	(60,000)
Deferred tax		
Origination and reversal of timing differences	48,654	11,594
Total tax charge/(credit)	39,040	(48,406)

5 Intangible fixed assets

	£	£	£
Cost			
At 1 January 2018	3,403,341	1,068,874	4,472,215
Additions - internally developed	-	511,119	511,119
At 31 December 2018	3,403,341	1,579,993	4,983,334
Amortisation and impairment			
At 1 January 2018	1,021,002	272,385	1,293,387
Amortisation charged for the year	340,334	290,130	630,464
At 31 December 2018	1,361,336	562,515	1,923,851
Carrying amount			
At 31 December 2018	2,042,005	1,017,478	3,059,483
At 31 December 2017	2,382,339	796,489	3,178,828

The company had no intangible fixed assets at 31 December 2018 or 31 December 2017.

The goodwill arose on the company's acquisition of Fathom Systems Limited on 17 December 2014.

FATHOM SYSTEMS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

6 Tangible fixed assets

Group	Land and buildings leasehold	Plant and machinery	Fixtures, fittings and equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 1 January 2018	24,005	287,184	110,092	33,595	454,876
Additions	-	10,909	23,598	-	34,507
Disposals	-	(5,362)	(202)	(6,995)	(12,559)
At 31 December 2018	24,005	292,731	133,488	26,600	476,824
Depreciation and impairment					
At 1 January 2018	20,803	234,239	68,785	7,828	331,655
Depreciation charged in the year	3,202	16,484	17,845	6,442	43,973
Eliminated in respect of disposals	-	(1,967)	(202)	(6,373)	(8,542)
At 31 December 2018	24,005	248,756	86,428	7,897	367,086
Carrying amount					
At 31 December 2018	-	43,975	47,060	18,703	109,738
At 31 December 2017	3,202	52,945	41,307	25,767	123,221

The company had no tangible fixed assets at 31 December 2018 or 31 December 2017.

7 Fixed asset investments

	Group 2018 £	2017 £	Company 2018 £	2017 £
Subsidiary investment	-	-	2,721,587	5,021,587

Details of the company's subsidiary is given within note 8.

The directors have assessed the carrying value of the company's subsidiary investment, in light of reduced trading (both actual and forecast) coupled with difficult market conditions and concluded there is an indicator of impairment around this. The directors have measured the recoverable amount of this investment, using a value in use calculation (which is considered to achieve a higher recoverable amount than a disposal) and when compared to the carrying value have noted a £2.3m impairment loss. As such, this has been recognised within the company's results for the year to 31 December 2018.

FATHOM SYSTEMS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

8 Subsidiaries

Details of the company's subsidiaries at 31 December 2018 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held	
				Direct	Indirect
Fathom Systems Limited	Scotland	Design, manufacture and sale of equipment to the offshore oil industry	Ordinary	100	
Westflo Technical Services Limited*	Scotland	Dormant	Ordinary		100

*Indirectly owned

Westflo Technical Services Limited was dissolved on 8 January 2019.

9 Debtors

	Group 2018	2017	Company 2018	2017
Amounts falling due within one year:	£	£	£	£
Trade debtors	539,205	927,462	-	-
Amounts recoverable on contracts	334,488	158,696	-	-
Corporation tax recoverable	68,863	60,000	-	-
Amounts due from group undertakings	36,552	-	729,080	558,463
Other debtors	31,088	11,305	8,353	8,536
Prepayments and accrued income	68,328	66,748	17,313	16,747
	<u>1,078,524</u>	<u>1,224,211</u>	<u>754,746</u>	<u>583,746</u>

Amounts due from subsidiary undertakings to the parent company are interest free and repayable on demand.

FATHOM SYSTEMS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

10 Creditors: amounts falling due within one year

	Group 2018 £	2017 £	Company 2018 £	2017 £
Bank loans and overdrafts	46,200	-	-	-
Trade creditors	340,777	268,730	8,105	5,105
Amounts owed to group undertakings	36,552	-	-	-
Taxation and social security	45,493	79,247	-	-
Other creditors	5,325,839	707,921	5,034,888	500,000
	<u>5,794,861</u>	<u>1,055,898</u>	<u>5,042,993</u>	<u>505,105</u>

During the period ended 31 December 2015, £500,000 fixed rate secured 2 loan notes were issued. The notes bear interest of 8% per annum, were redeemable in full on 27 October 2016 and are secured via a fixed charge on a specific bank account. The holder of the loan notes has confirmed to the directors in writing that it will not seek repayment of the loan notes until such times as the group has the ability to do so.

The group has an existing overdraft facility which is secured against a floating charge over the subsidiary company's assets.

11 Creditors: amounts falling due after more than one year

	Group 2018 £	2017 £	Company 2018 £	2017 £
Other creditors	<u>10,867</u>	<u>3,855,745</u>	<u>-</u>	<u>3,838,668</u>

12 Loans and overdrafts

	Group 2018 £	2017 £	Company 2018 £	2017 £
Bank overdrafts	46,200	-	-	-
Other loans	5,034,888	4,338,668	5,034,888	4,338,668
	<u>5,081,088</u>	<u>4,338,668</u>	<u>5,034,888</u>	<u>4,338,668</u>
Payable within one year	5,081,088	500,000	5,034,888	500,000
Payable after one year	-	3,838,668	-	3,838,668

During the period ended 31 December 2015, £3,000,500 fixed rate secured loan notes were issued. The notes bear interest at 10% per annum, payable quarterly, and are redeemable in full at the earlier of an exit event or 17 December 2019 along with any unpaid interest and accrued redemption premium. A redemption premium of 30% of the principal value of the loan notes is payable on redemption. The loan notes are secured by a fixed and floating charge on the assets of the group.

FATHOM SYSTEMS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

13 Provisions for liabilities

	Notes	Group 2018 £	2017 £	Company 2018 £	2017 £
Warranty provision		38,848	21,446	-	-
Deferred tax liabilities	14	151,654	103,000	-	-
		<u>190,502</u>	<u>124,446</u>	<u>-</u>	<u>-</u>

14 Deferred taxation

Deferred tax assets and liabilities are offset where the group or company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

Group	Liabilities 2018 £	Liabilities 2017 £
Accelerated capital allowances	<u>151,654</u>	<u>103,000</u>

The company has no deferred tax assets or liabilities.

	Group 2018 £	Company 2018 £
Movements in the year:		
Liability at 1 January 2018	103,000	-
Charge to profit or loss	48,654	-
Liability at 31 December 2018	<u>151,654</u>	<u>-</u>

15 Share-based payment transactions

The company has an Enterprise Management Incentive (EMI) scheme in place. This scheme provides for certain employees to exercise share options in the future if certain conditions are met. The exercise of these equity settled options will generally be on a sale, change of control or listing of the business and the options lapse on the tenth anniversary of the date of grant. Options are also forfeited if the employee leaves the business before the options vest. Details of the share options outstanding during the year are as follows:

FATHOM SYSTEMS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

15 Share-based payment transactions

(Continued)

Group and company	Number of share options		Weighted average exercise price	
	2018 Number	2017 Number	2018 £	2017 £
Outstanding at 1 January 2018 and 31 December 2018	55,555	55,555	0.50	0.50
Exercisable at 31 December 2018	-	-	-	-

The fair value of the share options at the grant date was calculated using an appropriate pricing model, which is considered to be the most appropriate generally accepted valuation method of measuring fair value. The fair value of the options is not material, hence no share based payment is being provided on these.

16 Share capital

	Group and company	
	2018 £	2017 £
Ordinary share capital		
Issued and fully paid		
422,222 Ordinary A of £0.01 each	4,222	4,222
600,000 Ordinary B of £0.001 each	600	600
949,500 Ordinary C of £0.000001 each	1	1
950,000 Ordinary D of £0.000001 each	1	1
	<u>4,824</u>	<u>4,824</u>

The A and B Ordinary shares have attached to them full voting, dividend and capital distribution rights and they do not confer any rights of redemption.

The C and D Ordinary shares have no voting rights attached to them, they have dividend and capital distribution (including on wind up) rights, they do not confer any rights of redemption.

17 Operating lease commitments

Lessee

At the reporting end date the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, as follows:

Group		Company	
2018	2017	2018	2017
£	£	£	£
672,603	804,657	-	-

FATHOM SYSTEMS GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

18 Capital commitments

Amounts contracted for but not provided in the financial statements:

	Group 2018 £	2017 £	Company 2018 £	2017 £
Acquisition of tangible fixed assets	24,563	-	-	-

19 Related party transactions

Transactions with related parties

The group has taken advantage of the exemption available in accordance with Section 33 of FRS 102 'Related Party Disclosure' not to disclose transactions entered into between two or more wholly owned members of the same group.

The group has no material related party transactions that were transacted outwith normal market conditions.

20 Controlling party

The group is controlled by the directors.