tern

Report and Accounts

For the year ended 31 December 2016

tern

Company Information

DIRECTORS	Angus Forrest Alan Howarth Bruce Leith Sarah Payne Albert Sisto
SECRETARY	Sarah Payne
REGISTERED OFFICE	9 Catherine Place London SW1E 6DX
COMPANY'S REGISTERED NUMBER	5131386
AUDITORS	Grant Thornton UK LLP Melton Street London NW1 2EP
NOMINATED ADVISOR AND JOINT BROKER	W H Ireland Limited 24 Martin Lane London EC4R 0DR
JOINT BROKER	Whitman Howard Limited 1-3 Mount Street London W1K 3NB
REGISTRARS	Share Registrars Limited The Courtyard 17 West Street Farnham Surrey GU9 7DR
BANKERS	Handelsbanken 5th Floor 13 Charles II Street London SW1Y 4QU
CORPORATE LAWYERS	Reed Smith The Broadgate Tower 20 Primrose Street London EC2A 2RS

Highlights of 2016

- Achieved a 560% uplift in net asset value and a profit for the year
- Our investee company, Device Authority, acquired a venture backed Silicon Valley technology company with a base of operations in North America and nine patents to strengthen the business
- Completed our first sale of a business and its assets, Concerto, to Ingram Micro
- Led a £2.5 million investment into Device Authority in October 2016, strengthening our ownership position.

Finances further strengthened

31 December	**2016 £'000**	2015 £'000	2014 £'000
Total Assets	**11,465**	1,825	1,367
Net Assets	**11,188**	1,692	944
Profit/(loss)	**5,297**	(185)	(54)

Contents

Chairman's Statement

For the year ended 31 December 2016

"Tern has sharpened its investment criteria to focus on building companies with technologies and services that enable the growth and operation of the Internet of Things."

I am pleased to present our annual report for the fiscal year ended 31 December 2016.

Over the course of the year, the Tern team began executing on the next phase of its business model, designed to create a sound financial structure and to establish a platform for sustainable growth. I am gratified to report that we have accomplished these objectives. In 2016, Tern achieved a 560% uplift in net asset value and recognised a profit for the year, whilst controlling administrative expenses (£455,000 for the year after deducting one-time costs of £155,000 which include exceptional legal costs, write off of the Device Authority facility fee on the convertible loan note and non-recurring advice relating to fund raising activities). We focused on working closely with our portfolio companies to bring them in-line with best operating practices, creating strategic force multiplying relationships and controlling expenses to ensure growth and continuous value creation.

Overview

Tern's fundamental goal is to find interesting technology opportunities that lead to significant returns and create value for shareholders. In 2016, the Board of Directors and management focused on two primary objectives: firstly, we took a hard look at our capabilities, with the result that we sharpened the focus of our investment strategy. Then, to successfully position the company to execute this investment strategy, we aligned our management structure, our investment portfolio, and identified additional 2017 initiatives that would help us bring these plans to fruition.

Secondly, in 2016 the Board focused on ensuring that Device Authority Limited (formerly Cryptosoft Limited) was positioned for success in the rapidly evolving Internet of Things ("IoT") market. Beginning with the acquisition of Fremont-based Device Authority Inc. by Cryptosoft Limited, we worked with management to define and execute a series of strategic initiatives which included the development of a series of valuable, mutually beneficial relationships with a number of the world's leading technology companies, and additional actions detailed below.

Tern's investment strategy

Tern now focuses on building companies with technologies and services within the fast-growing Internet of Things market. This reflects our assessment of where we see potential and where we believe our assets and experience can add value to companies and ultimately create strong returns for shareholders.

The increasing need for unique security solutions to underpin the growth of the IoT applications is widely recognised and in 2016, Device Authority Limited ("Device Authority"), Tern's flagship investment, was repeatedly recognised by industry experts and analysts as a core participant.

Our experience with Device Authority puts us in a strong position to seek out and build companies in other areas of the IoT market. In working with Device Authority, we have gained practical knowledge of what is required to successfully build a company in the space, substantial expertise in the IoT ecosystem and a web of relationships with a number of the world's leading technology companies.

Management realignment

The Board concluded that, as an experienced technology company executive, I would serve as the most effective leader for the Company. In making this decision, the Board placed particular emphasis on several broad aspects of my background: experience as a senior operating executive at technology companies, board-level participation in the growth of many successful technology start-ups, practical knowledge of the IoT ecosystem developed over the past two years as the Chairman of Device Authority, and resulting high-level relationships with executives at technology companies now involved in the IoT market.

In realigning our management, the Board also recognised that the Company would benefit from additional senior-level expertise in technology. As a result, we anticipate recruiting in 2017 a Chairman for the Board who will bring skills and experiences that are complementary to the Board.

Chairman's Statement

For the year ended 31 December 2016

The Board and I would like to thank Angus Forrest, who previously served as Chairman and founder of Tern, for bringing us to this stage of our development. Angus brings a wealth of transactional management expertise to the Company and will continue to oversee this critical aspect of Tern's activities.

Device Authority: Poised for growth

In 2016, Tern's management team worked extensively with the management of Device Authority, our flagship investment, to ensure it is positioned for success in 2017 and beyond.

During 2015 and into 2016, Cryptosoft Limited and Device Authority Inc (a United States based firm, whose owners included Alsop Louie Partners, one of the leading venture capital firms in Silicon Valley) established ever deeper ties through an OEM partnership. As the complementary capabilities of the two business became clear, it was agreed that a merger was in the best interests of both companies and their shareholders. Additionally, with Device Authority Inc's headquarters in Fremont, CA, and Cryptosoft's headquarters in Bracknell, the combined firm would have a strong presence in two critical hubs for IoT and exposure to prospective customers and partners.

In April 2016, Cryptosoft announced the acquisition of Device Authority Inc and chose to use the Device Authority name as the continuing brand. The resulting company, Device Authority Limited, was valued at £13.6 million (post new money) and represented an increase in the asset value of Cryptosoft to £6.1 million (pre new money) on the 21 April 2016 from £961,439 at 31 December 2015.

The new Device Authority Limited realised several milestones in 2016 that are noteworthy. They included: (1) The company reported its first significant customer, a key goal outlined in last year's annual report; (2) Device Authority's Internet of Things Security Solution has been formally reviewed and analysed, and deemed effective by a number of the world's leading analysts and technology companies, including Gartner, PTC's ThingWorx, Intel, Dell, amongst others. This included being named a Gartner "Cool Vendor."

Rationalising the investment portfolio

In June 2016, Tern made an offer to buy certain assets of Flexiant Limited for £75,000. Tern was an early stage investor in Flexiant Limited. The 2016 purchase price included two divisions of Flexiant Limited, Concerto and what is now flexiOPS Limited (previously Flexiant Research), a profitable technology consulting company. We believe that flexiOPS may be the source of valuable technology expertise to assist current and future Tern portfolio companies.

"Device Authority's Internet of Things Security Solution has been formally reviewed and analysed, and deemed effective by a number of the world's leading analysts and technology companies, including Gartner, PTC's ThingWorx, Intel, Dell, amongst others."

In November 2016, the Company announced that it completed the sale of the assets and business of Concerto, a multi cloud management software business, to Ingram Micro, the world's largest technology distributor and a leading technology sales, marketing and logistics company for the IT industry worldwide. The total consideration was $500,000 in cash, payable $425,000 on completion with $75,000 at the end of 12 months. Tern acquired Concerto alongside Flexiant Research in June 2016 for a combined total of £75,000 in cash. The valuations of the two businesses were not disclosed separately at the time of the acquisition. The Board believes the sale of Concerto represented good value, and the realised funds are being used to create new opportunities. Tern retains its stake in flexiOPS Limited which remains profitable. The sale of Concerto is our first portfolio company exit and represents an overall profit, net of all costs on this sale of £150,043, while still retaining the profitable flexiOPS.

Year-end funding and related activities

In October 2016, the Company announced that it had invested £2 million in Device Authority Ltd, as the lead investor in a £2.5 million funding round. Alsop Louie Partners and all existing A Preference shareholders also participated and took up their pro-rata share. Following this fund-raising Tern now owns 56.9% of the issued capital of Device Authority Ltd and 50.6% of the A preference shares. The funding is being used to expand Device Authority's sales and marketing teams to respond to their new and growing go to market partnerships and to meet the increased demand in the Industrial and Healthcare IoT markets. In addition, Device Authority is expanding its development team to accelerate product development and innovation in its recently launched KeyScaler™ IoT security platform.

We believe that the benefits of this strengthened financial position and increased ownership, will ensure that Device Authority and Tern can each execute on their respective strategies and subsequently yield superior results for our shareholders.

Chairman's Statement

For the year ended 31 December 2016

"In 2016, we undertook a series of initiatives at Tern to position the company for lasting success. With these underlying building blocks now in place, we approach 2017 with optimism and confidence."

Moving into 2017 and beyond

For Tern, 2016 was, in many ways, a period where we put the final building blocks in place to position the Company for success. With much of this positioning now in place, we approach 2017 with optimism and confidence.

Events after the operating period

On 31 January 2017 Device Authority was pleased to announce the appointment of George Samenuk to the Device Authority board as a non-executive Director. George Samenuk, is the former Chairman and CEO of McAfee (NYSE: MFE), the world's largest dedicated software security business. Mr Samenuk has served on the boards of Symbol Technologies (sold to Motorola for $3.9 billion) and other privately-owned companies. He also spent over twenty years at IBM, holding a variety of executive positions and ended his career there as General Manager of the Americas, responsible for $45 billion in revenue.

Finally, I would like to thank all of our shareholders for the support and enthusiasm, all our portfolio employees for their commitment and our Directors for their dedication to the Company and its mission

Albert Sisto
Chairman

Date: 16 February 2017

Our Markets

Overview

The Internet of Things is experiencing dramatic and accelerating growth. To achieve the large and accelerated growth which is widely anticipated, the market for IoT enablement services must necessarily grow at a similar pace.

The Internet of Things (IoT) is a growing network of connected objects able to collect and share data via embedded sensors and gateways. The IoT also turns “dumb” stand-alone devices into “smart” connected devices that can receive real-time operating instructions based on the information collected and shared. The accelerating proliferation of IoT devices is upending traditional practices across a wide range of industries (notably in such diverse areas as healthcare, agriculture, the smart home, insurance, and connected vehicles) and across a wide range of functions throughout industries (such as supply chain and logistics management, manufacturing, and inventory management). We see this as an opportunity for Tern to create value by investing in companies with global reach that provide critical “must have” solutions for IoT. Through the introduction of automation, unlocking previously unavailable real-time information, and data analytics, the IoT is transforming the way people and groups interact with the world, and the way businesses function and deliver value to customers.

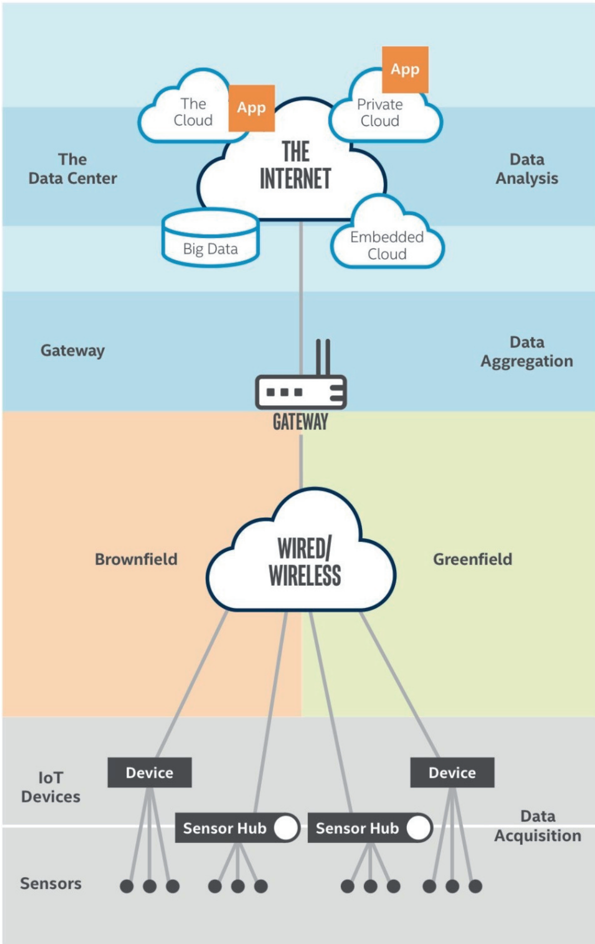
A Business Insider BI Intelligence report, dated January 2017, projects that in 2021 the number of installed IoT devices worldwide will rise to 22.5 billion, an increase from 6.6 billion in 2016. This same report concludes that annual spending on the IoT will “rise from just under $400 billion in 2016 to $1.35 trillion in 2022,” and projects “a total of $4.8 trillion in IoT spending over the next five years.” Numerous other analyst’s sources project similarly high worldwide IoT growth and spending.

The IoT enablement ecosystem

The IoT ecosystem, which supports the creation, launch, and operations of IoT devices, has seven distinct layers:

- Hardware (the IoT devices themselves);
- Networks (traditional LAN/WAN, public wireless and mesh, which connect IoT solutions to applications and users);
- Remotes (which manage the IoT solution and provide the user interface);
- Applications Platforms (that provide operating and support services such as data analytics and storage);
- Development Platforms (which facilitate the development of IoT applications);

The Internet of Things (IOT) Ecosystem



- Security Platforms (that protect the IoT solutions), and;
- System Integration Providers and Platforms (which enable solutions to seamlessly slot into operations).

All the seven layers require a wide range of services, products and technologies geared to specific uses in key segments, suggesting a significant opportunity for essential IoT enablement.

As IoT growth occurs, significant new investment opportunities are emerging. In the same way that the developers of the automobile could not fully envision the subsequent supporting industry of paved roads, stop signs and later traffic lights, petrol stations (reflecting a new, ultimately global oil industry), and manufacturing and sourcing facilities for individual car components such as batteries and tyres, the IoT is quickly creating the need for entirely new types of support services. In addition, the rapid pace of change means that these new opportunities are also emerging at an accelerated rate.

Our Markets

An initial demonstration of the wide range of IoT enablement technologies that are needed to ensure the success of IoT adoption is PTC's (NYSE) ThingWorx marketplace. PTC is the leading development platform for the creation of IoT applications. At the same time, it has recognised the need for third-party companies, including our portfolio company, Device Authority, to provide the wide range of specialised products and services which no single technology company can expect to own and operate.

The PTC ThingWorx marketplace is an early demonstration of what we believe will be a market characterised by robust demand and growth.

As these new IoT enablement opportunities emerge, the Directors believe Tern's experience and relationships in this arena will both allow it to rapidly assess the value of purchasing specific companies, and to create value for shareholders by building their success.

IoT Enablement: Investment focus

Within the IoT enablement ecosystem, Tern will work to identify and invest in companies that provide products or services which meet the needs of a broad number of potential customers, and which do not depend on the success of any one device or piece of equipment.

Our investment in Cryptosoft, now Device Authority, is indicative of this approach. As detailed above, security solutions are critical to all aspects of IoT applications. As a consequence, the potential market for Device Authority's platform is large, growing, and varied.

Within the seven layers of IoT enablement, Tern anticipates that it will focus its investment efforts in three areas:

- IoT security solutions;
- IoT systems integration companies; and
- IoT data analytics firms.

IoT security solutions

With our flagship investment in Device Authority, the market for IoT security enablement services merits special attention.

The promise of the IoT is the ability to connect smart devices to the Internet enabling the continuous collection and exchange of data and instructions to such. Over the past year, the critical importance of effective IoT security solutions and managed services, for the growth and adoption of the IoT, has been increasingly recognised across the spectrum of industry analysts, industry participants, and the press.

Indeed, the recent BI Intelligence report, referenced earlier, recognised the security solutions as one of the five cornerstones of IoT applications.

Effective IoT security solutions serve, at minimum, a dual purpose: first, they ensure the integrity and privacy of the data generated by IoT devices and moving through IoT networks. Second, through autonomous authentication and attestation, prevent IoT devices from malicious hackers who could conceivably take unauthorised control of IoT devices and/or their applications and instigate malicious actions with potentially devastating consequences. One example of the importance of IoT security solutions is the protection of connected healthcare devices for individuals, that provide therapies in response to commands received over the device's IoT network. Specifically designed and implemented IoT Security solutions prevent malicious third-parties from taking control of such devices, and potentially threatening the lives of their users.

With this widespread recognition of ever increasing importance, numerous analyses have determined that the market for IoT security applications and services will experience high growth in the coming years. Last year, a sample of industry reports projected compound annual growth rates in spending on IoT security solutions over the next four to five years to be between 36% and 55%.

In our view, the specific growth rates are not important, but the central message of these many analyses is: the market for IoT security enablement solutions is poised to grow rapidly.

IoT systems integrators

The directors see value in emerging IoT system integration opportunities. Companies with contextual knowledge of vertical applications, for example, medical devices, are well positioned to help their clients through a deep understanding of specific industry use cases and clients' operations. This guidance enables such companies to add value by leveraging the value of their IoT solutions. In short, selectively seeking investments in specific industrial integration or automation companies enhances the rapid transformational impact of IoT solutions, with associated rewards for these companies and shareholders.

IoT data analytics

Access to new and valuable data is at the heart of the IoT. The IoT's embedded sensors provide a stream of real-time data, across industries and function, that has never existed before. In addition, the rapid ability to derive meaning from this data, and to quickly respond to new information is central to the promise of the IoT. For example, autonomous driving vehicles will only be viable when the data associated with each vehicle's activities can be processed and assessed so that a continuous

Our Markets

stream of near real-time commands flow in response to the changing data received as each vehicle's trip progresses.

Many IoT data analytics firms certainly exist. However, the directors' practical experience in IoT enablement suggests that a wide range of new data analytics capabilities will be needed over the next several years, for many different uses. Tern will, therefore, be assessing opportunities in this fast-growing market.

Investment Focus: Summary

Tern's sharpened investment focus reflects our hands-on experience in the IoT enablement market. The directors believe that this refined vision enables us to seek out high growth opportunities, offering the opportunity to build large, successful companies, while minimising risk.

Tern anticipates that, over the next several years, it will successfully buy and build several IoT enablement companies. Our success will, in part, be based on the Company's existing expertise, experience, and wide range of relationships with the leading global technology companies participating in the IoT space. Moreover, future investments in this area will provide ever greater expertise and experience and an ever-broader base of beneficial relationships. In summary, the directors believe the development of multiple IoT enablement companies will create a powerful base, equivalent to a form of scale economics, that will benefit Tern portfolio companies, and provide shareholders with significant returns. Ultimately, Tern seeks to become the pre-eminent UK-based creator of leading IoT enablement companies.

Strategic Report

For the year ended 31 December 2016

> "Tern has turned its vision into reality twice in the past year creating shareholder value by acquiring technology companies with world class products which have not achieved their full potential. Concerto software was realised in the year and Device Authority was materially revalued following an acquisition and investment from new investors."

Strategic Report

For the year ended 31 December 2016

Business review

The Company is positioned as a quoted platform to invest in, develop and sell private software companies with proven technology, based in the UK but with global opportunities and ambition. These businesses are predominantly in the cloud, Internet of Things and mobile sectors. A more detailed review of the activity and progress of the business, including the portfolio of investments, is contained in the Chairman's Statement on pages 2-4 and Investment Report on pages 11-13, which form part of the Strategic Report.

Future developments

As explained in the Chairman's Statement the Company has undertaken a series of initiatives to position the Company for lasting success and has continued to build a portfolio of investments and a pipeline of investment opportunities in IoT enablement. It is also in the process of recruiting a new Chairman to bring further technology experience to the Board.

Key performance indicators

Whilst the Company currently has limited investments in unquoted companies, as referred to above, the Company's principal activity is that of investing in companies. Accordingly, the Company's financial Key Performance Indicators (KPIs) are the return on investments and the net assets position of the Company including net assets per share. These indicators are monitored closely by the Board and the details of performance against these are given below.

- The return on investments:
  - Realised – Concerto was sold in November 2016 for $500,000 with direct costs, including investment cost, of £98,811, resulting in a profit after all costs of £150,043.
  - Unrealised – Device Authority Limited, Push Technology Limited and Seal Software Group Limited have been revalued in line with IFRS to a level consistent with recent fund raisings. The unrealised gain on Device Authority Limited has arisen due to the acquisition of Device Authority Inc by Device Authority Limited (formerly Cryptosoft Limited). Device Authority is an early stage business in an emerging market where there is a lack of comparative businesses available on which to provide a comparable valuation and therefore valuation was based on the price of shares in the most recent fund raise, which is taken as fair value and an unrealised gain of £6.1 million was recognised.
- The net assets of the Company at 31 December 2016 totalled £11,187,739 (2015: £1,691,881). The net assets per ordinary share as at 31 December 2016 were 9.44p (2015: 2.70p).

The Company has non-financial KPIs which are also monitored regularly by the Board. These non-financial KPIs are focused around the number and quality of investment opportunities seen and the impact on the pipeline.

Financial risk management objectives and policies

The Company's policy in respect of financial instruments and risk profile is set out in Note 2 to the financial statements.

Principal business risks and uncertainties

The management of the business and the nature of the Company's strategy are subject to a number of risks. The directors have set out below the principal risks facing the business. Where possible, processes are in place to monitor and mitigate such risks. The Company operates a system of internal control and risk management in order to provide assurance that the Board is managing risk whilst achieving its business objectives with the assistance of the Audit Committee. No system can fully eliminate risk and, therefore, the understanding of operational risk is central to the management process.

Identifying, evaluating and managing the principal risks and uncertainties facing the Company is an integral part of the way the business operates. The Company has policies and procedures in place throughout its operations, embedded within the management structure and as part of the normal operating processes. Market and economic conditions are recognised as one of the principal risks in the current trading environment. This risk is mitigated by the close monitoring of trading conditions and the performance of the Company's investment portfolio. The Company is affected by a number of risks and uncertainties, not all of which are wholly within its control as they relate to the wider macroeconomic and legislative environment within which the Company operates.

Strategic Report

For the year ended 31 December 2016

To enable shareholders to appreciate what the business considers are the main operational risks, they are briefly outlined below:

	Risk	Potential impact	Strategy
Reliance on key people	The Company is unable to retain key individuals	• Loss of knowledge and expertise • Disruption for the Company or its investment companies	The Company offers a remuneration package designed to attract, motivate and retain key individuals Key individuals in the investment companies are offered an attractive remuneration package and either shares or share option incentives
Investment risk	An investment fails to perform as anticipated: • Investee companies may be operating in highly competitive markets with rapid technological change • Investee companies may be companies in early stage of commercial development. Generation of significant revenues is difficult to predict and not guaranteed.	• Investment may require additional finance • Inability to create maximum value in a timely fashion • Difficulty in realising investment	The Company actively takes an influential role in the strategic direction of its investments and monitors all investments regularly The Company's strategy has been formulated by the management team with a strong track record of generating gains from early stage companies within the technology sector The Company is building a portfolio of investments to insulate itself against poor performance of any one
Liquidity	The Company is unable to raise new funds	• May have a detrimental effect on the Company's ability to cover administration and other costs • May adversely affect returns of investee companies if they need to raise further funds	The Company will maintain sufficient cash balance to finance itself for a prudent period, or ensure that it has access to funds

Assessment of business risk

The Board regularly reviews operating and strategic risks, with the assistance of its committees. The Company's operating procedures include a system for reporting financial and non-financial information to the Board including:

- reports from management with a review of the business at each Board meeting, focusing on any new decisions/risks arising;
- reports on the performance of investments;
- reports on selection criteria of new investments;
- discussion with senior personnel; and
- consideration of reports prepared by third parties.

The Strategic Report was approved and authorised for issue by the Board of Directors on 16 February 2017 and was signed on its behalf by:

Angus Forrest
Director

16 February 2017

Investment Report

For the year ended 31 December 2016

The Company's current investment portfolio consists of the following investments, all of which are unquoted:

Device Authority Limited

Market segment: Data Security software

Equity ownership: 56.9% 'A' Shares   Cost: £4.34 million   Valuation: £10.47 million

Valuation is based on the price of shares in the most recent fund raise, which is taken as fair value.

Device Authority Limited (formerly Cryptosoft Limited) is an Internet of Things (IoT) security automation company. Device Authority Limited provides simple, innovative solutions to address the challenges of securing applications and their devices while using the Internet with a robust, end-to-end security architecture that delivers efficiencies at scale. The Device Authority KeyScaler™ IoT security platform is purpose-built to address these challenges through automated device provisioning, credential management, secure updates and policy-driven data encryption.

In April 2016 Cryptosoft Limited acquired Device Authority Inc. based in Fremont, CA. Subsequently Cryptosoft Limited changed its company name to Device Authority Limited. Post the acquisition, progress has been made throughout 2016 to strengthen the management team within Device Authority Limited including a new Chief Technology Officer and Financial Controller. The acquisition of the Device Authority Inc technology has enhanced the software offerings from Cryptosoft. Device Authority Inc software adds policy driven key and certificate management, to Cryptosoft's original IoT Data security software platform.

In Q4 2016, Device Authority Limited launched the merged software platform KeyScaler. The goal of the integrated solution is to deliver rapid security automation and active security posture enforcement to address the new and evolving security challenges of the IoT market. The KeyScaler platform allows customers to securely register, provision and update their devices through active, policy-based security controls which are designed to protect IoT applications and services. Device Authority Limited have also adapted the software to integrate seamlessly with several of its Go-to-Market partners, including PTC's ThingWorx Platform, Intel, DigiCert, Dell, Cumulocity and others. Specific details, videos and white papers can be reviewed on the Device Authority Limited website.

Device Authority Limited will continue to focus on building its contract base and device registrations, as well as developing its strategic alliances and OEM integration of the KeyScaler platform. Focus is also being driven to the thoughts around developing a white labelled version of KeyScaler and co-branding with other IoT platform providers.

Key announcements in 2016 included:

- Device Authority Limited was awarded the coveted Cool Vendor Award by Gartner, May 2016, this follows Device Authority Inc. winning the same award in 2015.
- In June 2016 Device Authority Limited was also awarded the InfoSecurity and TechUK Award for the 'UK's Most Innovative Small Cyber Security Company.
- Device Authority Limited secured its first OEM contract in June 2016 with MachineShop Inc, an IoT middleware supplier, to provide its services-based technology in a variety of deployment models.
- In April 2016 PTC's primary EMEA integration partner, InVMA, signed to partner Device Authority Limited. InVMA and Device Authority Limited have since jointly presented at events such as PTC Forum Europe and IoT Solutions World Congress.
- Marketing and selling alliance partnerships were also signed with Intel, Dell, Symantec, Cumulocity and DigiCert.
- The Company invested £2 million in Device Authority Limited as the lead investor in a £2.5 million funding round. At 31 December 2016, the Company owned 56.9% of the issued capital of Device Authority Ltd and 50.6% of the A preference shares.

For more information visit: www.deviceauthority.com

Investment Report

For the year ended 31 December 2016

flexiOPS Limited

Market segment: Project management of research and innovation projects in technology

Equity ownership: 100%	Cost: £37,500*	Valuation: £37,500

* Cost is 50% of the purchase price of two business units flexiOPS and Concerto. Concerto was sold in 2016. Valuation is based on cost, which is taken as fair value.

flexiOPS Limited ("flexiOPS"), was an established business unit of Flexiant Limited. It runs project management and innovation technology projects with associated grant funding, many of these projects are incorporated in the Flexiscale Technologies Limited FCO product. It works across a portfolio of projects including Horizon 2020, the European Commission's EU Framework Programme for Research and Innovation, whose purpose is securing Europe's global competitiveness.

flexiOPS will work with other Tern portfolio companies on their innovation projects together with sourcing associated grant funding.

For more information visit: www.flexiOPS.com

Push Technology Limited

Market segment: Data distribution software

Equity ownership: <1%	Cost: £120,197	Valuation: £34,205

Valuation is based on the price of shares in the most recent fund raise, which is taken as fair value.

Push Technology Limited ("Push") significantly enhances the ability of organisations to communicate in real-time. This includes direct communication as well as indirect for example by refreshing data displayed information in real time rather than when a user explicitly asks for an update. Interactive applications are infinitely more engaging, updating in real-time as new data becomes available.

Key announcements in 2016 included:

- New standard product with new SaaS business model released.
- Upgraded products released for enterprise and SaaS solutions.
- New bank customers.

For more information visit: www.pushtechnology.com.

Investment Report

For the year ended 31 December 2016

Seal Software Group Limited

Market segment: Database Analytics and Search software

Equity ownership: <1% Cost: £50,000 Valuation: £62,714

Valuation is based on the price of shares in the most recent fundraise, which is taken as fair value.

Seal Software Group Limited ("Seal") specialises in writing software which performs complex analysis of contractual data. Seal Software is specifically designed to locate and examine contractual documents and extract and present key contractual information related to language, clauses, clause combinations, and the significant contextual metadata held within them.

In 2016 Seal unveiled a new version of its leading contract discovery and analytics solution called Version 5.0. The new version introduces two major capabilities, the first called "Analyse This Now" (ATN) and the second is "User Driven Machine Learning" (UDML). Both are designed to empower business users, putting more of the capabilities of Seal in their hands, and removing work from legal operations or other administrative resources. Version 5 reduces the costs, and speeds the time for many contract management and analysis processes.

In 2016 the notable events included:

- Winner of Awards including: Legal Tech News Innovation Award, Silver Stevie Award, IACCM Innovation Award, 2016 KMWorld Promise Award.
- Seal was the 148th Fastest Growing Company in Deloitte's 2016 Technology Fast 500.
- Customer numbers top 100 in March 2016.

Customers include Dropbox, Microsoft, Bosch, hp, Merck, Vodafone and many other multi-national organisations.

For more information visit: www.seal-software.com

Board of Directors

Al Sisto
Chief Executive Officer

Al's an IT industry veteran with more than 25 years senior executive level experience. As Chief Operating Officer at RSA Data Security Inc, the leading security software company, he led its transformation from a passive patent licensing operation to an aggressive, sales oriented software company. At RSA he negotiated partnership agreements with IBM, Intel, Compaq, Cisco and Nortel. Al was Chairman, President and CEO of Phoenix Technologies Limited, the global BIOS software company. He revitalised Phoenix through the acquisition of Internet appliance business, Ravisent Technologies; investing in semiconductor and microprocessor designer Transmeta and spinning off Silicon Corporation.

Sarah Payne
Finance Director

Sarah qualified with Ernst & Young as a Chartered Accountant before joining its corporate finance team. She then spent six years with the BBC, firstly within commercial and investment strategy and then as Head of Financial Planning and Analysis. For the seven years before joining Tern Plc, Sarah was an outsourced Finance Director for SME businesses principally within high tech markets.

Angus Forrest
Operations Director

After 20 years as a venture capitalist, Angus is a specialist in growing b2b sales driven companies. As co-founder and Chief Executive of Billam Plc, an AIM quoted investment company formed in 2000, Angus was instrumental in investing in Cybit, a pre-revenue telematics business. He was personally responsible for changing Cybit's business model, introducing technology, arranging the IPO, recruiting a new Chairman and CEO and assisted with its first acquisition, the Fleetstar division of Trafficmaster. Cybit is now the largest telematics business in Europe.

Bruce Leith
Business Development Director

Bruce began his career with IBM and has extensive international sales management and board level experience in the software industry including senior level positions at DataWorks Corporation, London Bridge Software International and Codestream. Specialising in delivering high growth, high profit results through product development, portfolio repositioning and geographical expansion, Bruce was involved in the successful sales of a number of companies including Interactive UK, London Bridge and Codestream. Bruce is also an active angel investor in several high growth software businesses.

Alan Howarth
Non-Executive Director

Alan has extensive experience as a Chairman and Non-Executive Director of private and public companies. He is a specialist in building and selling technology businesses. Previously, Alan was a partner at Ernst & Young and is one of the founding partners of the EY Management Consulting practice in the UK. For the last fifteen years he has been managing a portfolio of non-executive appointments.

Directors' Report

For the year ended 31 December 2016

The directors present their annual report and the audited financial statements of Tern plc (the "Company") for the year ended 31 December 2016.

The Company is registered as a public limited company (plc). The Company's Ordinary shares of 0.02p each are traded on AIM of the London Stock Exchange.

Principal activities

The principal activity of the Company is investing in unquoted and quoted companies to achieve capital growth.

Results and dividends

The results for the period are shown in the income statement and statement of comprehensive income on page 23.

The profit for the year was £5,296,633 (2015: £185,121 loss).

The directors do not recommend payment of a dividend.

Events after the reporting period

On 31 January 2017, Device Authority, the Company's largest investment, announced the appointment of George Samenuk as a non-executive director.

Political and charitable contributions

No political or charitable donations were made during the period.

Control procedures

Operational procedures have been developed for each of the Company's operating businesses that embody key controls over relevant areas. The implications of changes in law and regulations are taken into account by the Company.

The Board has considered the need for an internal audit function but has decided that this is not justified at present given the size of the Company. However, it will keep the decision under review on an annual basis.

Going concern

The financial statements have been prepared on the going concern basis because, as set out in detail in Note 1.3, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Directors and directors' interests

The directors who held office during the year and their interests in the ordinary shares of the Company are as follows:

	At 31 December 2016 Ordinary shares	At 31 December 2015 Ordinary shares
A G P Forrest	6,359,602	6,276,269
A M Howarth	–	–
B H Leith	5,957,233	6,173,900
S L Payne	–	–
A E Sisto	6,263,333	6,180,000

The interests of the directors in options granted by the Company are disclosed under the "Report on Directors Remuneration".

Directors' Report

For the year ended 31 December 2016

Significant shareholdings

As at 16 February 2017, the company had been notified of the following shareholdings of 3% or more of the share capital.

	Number of Ordinary Shares	Percentage of Issued Shares Held
City Absolute Equity Fund	7,142,857	6.0%
M J Clark	7,100,000	6.0%
A G P Forrest	6,359,602	5.4%
A E Sisto	6,263,333	5.3%
B H Leith	5,957,233	5.0%
Hargreave Hale Limited	4,366,666	3.7%

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted for use in 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 of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the Company financial statements have been prepared in accordance with IFRS as adopted by the European Union subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts 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 transactions and disclose with reasonable accuracy at any time the financial position of the 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information

In the case of each person who was a director at the time this report was approved:

- so far as that director is aware there is no relevant available information of which the company's auditors are unaware; and
- that director has taken all steps that the director ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

Publication of accounts on the company website

Financial statements are published on the Company's website. The maintenance and integrity of the website is the responsibility of the directors. The directors' responsibility also extends to the financial statements contained therein.

Directors' Report

For the year ended 31 December 2016

Independent auditors

The auditor, Grant Thornton UK LLP, was appointed on 15 December 2016 in accordance with section 160 (2) of the Companies Act 2006. In accordance with S489 (4) of the Companies Act 2006, a resolution to re-appoint Grant Thornton UK LLP as auditor will be put to the members at the annual general meeting to be held on 16 March 2017.

Signed on behalf of the board

Sarah Payne
Director

16 February 2017

Corporate Governance and Compliance

For the year ended 31 December 2016

The Company's shares are traded on AIM and, accordingly, adoption of the revised UK Corporate Governance Code is not mandatory. Whilst the Company does not voluntarily adopt all provisions of the Code, the Company has drawn upon best practice available and has sought to comply with a number of the provisions of the Code in so far as it considers them to be appropriate for a company of this size and nature. Over the past three years as the Company developed from early stage to established, steps have been taken to increase compliance with more provisions of the Corporate Governance Code. In 2016 the first Board Committees were established. The Board is accountable to the Company's shareholders for good corporate governance. This report and the Report on Directors' Remuneration describe how the Company applies the provisions of good corporate governance. A fuller version is available on the Company's website (www.ternplc.com) under Investors.

Directors

The Company supports the concept of effective Board leadership and control of the Company. The Board is responsible for approving Company policy and strategy. All directors have access to advice from the company secretary and independent professionals at the Company's expense.

The Board consists of four executive directors and one non-executive director. The non-executive director is independent of management and any business or other relationship which could interfere with the exercise of his independent judgement.

The Board members are listed on page 14.

Board committees

Audit Committee

The Audit Committee was established in November 2016 and is chaired by Alan Howarth.

There were no Audit Committee meetings in 2016. Prior to the establishment of this committee, these responsibilities were undertaken by the Board.

Remuneration Committee

The Remuneration Committee was established in November 2016 and is chaired by Alan Howarth.

There were no Remuneration Committee meetings in 2016. Prior to the establishment of this committee, these responsibilities were undertaken by the Board.

Relations with shareholders

The Company values the views of its shareholders and recognises their interest in the Company's strategy and performance, Board membership and quality of management. It therefore encourages shareholders to offer their views.

The Company's website (www.ternplc.com) maintains up to date news flow for shareholders and other interested parties.

The AGM provides an opportunity for shareholders, particularly private investors, to question the Board on issues arising.

The notice convening the AGM is the notice of the meeting sent to shareholders with this report. A separate motion will be put to the meeting on each substantial issue.

Appointment of directors

The Board deals with all matters relating to the appointment of directors including determining the specification, identifying suitable candidates and selection of the appointee. No separate nominations committee has been formed.

Throughout the year the Articles of Association have required each director to seek re-election after no more than three years in office. Therefore, the Board considers it inappropriate that non-executive directors be appointed for a fixed term as recommended by the Code.

Corporate Governance and Compliance

For the year ended 31 December 2016

Accountability and audit

The Board endeavours to present a balanced and understandable assessment of the Company's position and prospects in all reports as well as in the information required to be presented by statutory requirements. All financial information published by the Company is subject to the approval of the Audit Committee.

The Audit Committee is responsible for reviewing the Company's internal control and risk management systems, and reviewing and monitoring the requirement for an internal audit function and the effectiveness of the external audit. The Committee is responsible for maintaining a system of internal control to safeguard shareholders' investments and the Company's assets and for reviewing its effectiveness. Such a system is designed to manage, but not eliminate, the risk of failure to achieve business objectives. There are inherent limitations in any control system and accordingly even the most effective systems can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Activities of the Audit Committee include monitoring the integrity of the Company's financial statements and other formal announcements relating to the Company's financial performance and reviewing significant financial reporting judgements contained in them.

The Audit Committee advises the Board on the appointment, reappointment and removal of the external auditor, considers its effectiveness and approves its remuneration and terms of engagement, which includes developing and implementing a policy on the provision of non-audit services by the external audit firm. It also reviews and monitors the independence and objectivity of the external auditor.

Alan Howarth
Director

16 February 2017

Report on Directors' Renumeration

For the year ended 31 December 2016

The Remuneration Committee submits its Report on Directors' Remuneration for the year ended 31 December 2016.

Remuneration policy

The Remuneration Committee is responsible for agreeing the framework and remuneration policy for the executive directors and is chaired by Alan Howarth. Prior to the formation of the Remuneration Committee in November 2016, these responsibilities were undertaken by the Board as a whole.

The following Remuneration Report is presented for the year ended 31 December 2016.

The policy of the Remuneration Committee is to provide executive remuneration packages designed to attract, motivate and retain directors of the calibre necessary to manage the Company and to reward them for enhancing shareholder value and return. It aims to provide sufficient levels of remuneration to do this but to avoid paying more than is necessary.

There are three main elements of the directors' remuneration package being basic annual salary, performance related bonus and share option incentives.

All directors' salaries are reviewed annually by the Remuneration Committee.

Directors' remuneration

The remuneration of each director, excluding share options awards, during the year ended 31 December 2016 is detailed in the table below:

	Salary and fees £	Pension payments £	Other benefits £	Annual bonuses £	2016 Total £	2015 Total £
A G P Forrest	48,000	–	–	–	48,000	32,000
M J Clark	–	–	–	–	–	12,750
A M Howarth	15,000	–	–	–	15,000	2,500
B H Leith	24,000	–	–	–	24,000	16,000
S L Payne	54,500	–	–	–	54,500	19,215
L Read	–	–	–	–	–	6,000
A E Sisto	52,490	–	–	–	52,490	24,000
	193,990	–	–	–	193,990	112,465
Share based payment charge	15,317	–	–	–	15,317	95,818
Total remuneration	209,307	–	–	–	209,307	208,283

Directors' share options

The Director's outstanding share options as at 31 December 2016 are shown in the table below:

	Outstanding at 31 December 2015	Granted during the period	Exercised during the period	Outstanding at 31 December 2016	Option Price	Exercise period
A G P Forrest	500,000	–	–	500,000	9p	16 Feb 2015 – 15 Feb 2022
A M Howarth	–	250,000	–	250,000	13p	23 Feb 2016 – 22 Feb 2023
B H Leith	500,000	–	–	500,000	9p	16 Feb 2015 – 15 Feb 2022
S L Payne	500,000	–	–	500,000	15.25p	29 Oct 2015 – 28 Oct 2022
A E Sisto	500,000	–	–	500,000	9p	16 Feb 2015 – 15 Feb 2022
	2,000,000	250,000	–	2,250,000		

All directors' share options vest immediately on issue.

Further detail on options granted in the year is set out in Note 17.

Alan Howarth

16 February 2017

Independent Auditor's Report

For the year ended 31 December 2016

We have audited the financial statements of Tern PLC for the year ended 31 December 2016 which comprise the income statement and statement of comprehensive income, statement of financial position, statement of changes in equity, the 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.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Independent Auditor's Report

For the year ended 31 December 2016

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and Directors' Report.

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

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

16 February 2017

Income Statement and Statement of Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 £	2015 £
Turnover		69,715	162,500
Sale of investment		383,489	–
Movement in fair value of investments		5,758,480	63,492
Cost of investment sold		(98,811)	–
Gross profit		6,112,873	225,992
Administration costs		(609,680)	(298,896)
Share based payment charge	17	(191,299)	(99,523)
Operating profit/(loss)	6	5,311,894	(172,427)
Finance income		1,198	11,786
Finance costs	7	(16,459)	(24,480)
Profit/(Loss) before tax		5,296,633	(185,121)
Tax	8	–	–
Profit/(loss) for the period		5,296,633	(185,121)

Since there is no other comprehensive income, the loss for the period is the same as the total comprehensive income for the period.

EARNINGS PER SHARE:	9		
Basic profit/(loss) per share		6.4 pence	(0.37) pence
Fully diluted profit/(loss) per share		6.4 pence	(0.37) pence

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

Statement of Financial Position

As at 31 December 2016

	Notes	2016 £	2015 £
ASSETS			
NON-CURRENT ASSETS			
Investments held for trading	10	10,601,330	810,350
Loans to investee companies	10	–	619,413
		10,601,330	1,429,763
CURRENT ASSETS			
Trade and other receivables	11	100,515	117,042
Cash and cash equivalents	12	762,851	278,456
		863,366	395,498
TOTAL ASSETS		11,464,696	1,825,261
EQUITY AND LIABILITIES			
Share capital	13	1,325,270	1,314,118
Share premium	13	12,390,310	8,393,536
Loan note equity reserve		20,650	20,650
Share option and warrant reserve		1,088,595	897,296
Retained earnings		(3,637,086)	(8,933,719)
		11,187,739	1,691,881
CURRENT LIABILITIES			
Trade and other payables	14	172,517	35,986
TOTAL CURRENT LIABILITIES		172,517	35,986
NON-CURRENT LIABILITIES			
Borrowings	16	104,440	97,394
TOTAL NON-CURRENT LIABILITIES		104,440	97,394
TOTAL LIABILITIES		276,957	133,380
TOTAL EQUITY AND LIABILITIES		11,464,696	1,825,261

The financial statements were approved and authorised for issue by the Board of Directors on 16 February 2017 and were signed on its behalf by:

Sarah Payne
Director

Company number 05131386

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

Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital £	Share premium £	Loan note equity reserve £	Option and warrant reserve £	Retained earnings £	Total equity £
Balance at 31 December 2014	1,310,613	7,563,193	53,624	797,773	(8,781,572)	943,631
Total comprehensive income	–	–	–	–	(185,121)	(185,121)
Transactions with owners						
Issue of share capital	3,505	865,243	–	–	–	868,748
Share issue costs	–	(34,900)	–	–	–	(34,900)
Transfer on conversion of convertible loan notes	–	–	(32,974)	–	32,974	–
Share based payment charge	–	–	–	99,523	–	99,523
Balance at 31 December 2015	1,314,118	8,393,536	20,650	897,296	(8,933,719)	1,691,881
Total comprehensive income	–	–	–	–	5,296,633	5,296,633
Transactions with owners						
Issue of share capital	11,152	4,210,311	–	–	–	4,221,463
Share issue costs	–	(213,537)	–	–	–	(213,537)
Share based payment charge	–	–	–	191,299	—	191,299
Balance at 31 December 2016	1,325,270	12,390,310	20,650	1,088,595	(3,637,086)	11,187,739

Share capital

The amount subscribed for shares at nominal value.

Share premium

This represents the excess of the amount subscribed for share capital over the nominal value of the respective shares net of share issue expenses.

Loan note equity reserve

This represents the equity component of convertible loans issued.

Option and warrant reserve

This represents the calculated value of the options and warrants issued.

Retained earnings

Cumulative loss of the Company.

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

Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 £	2015 £
OPERATING ACTIVITIES			
Net cash used in operations	19	(64,729)	(79,159)
INVESTING ACTIVITIES			
Purchase of investments		(3,460,000)	(114,880)
Loan to investee companies		–	(610,000)
Net cash used in investing activities		(3,460,000)	(724,880)
FINANCING ACTIVITIES			
Proceeds on issues of shares		4,217,500	720,000
Share issue expenses		(213,537)	(34,900)
Proceeds from exercise of warrants		3,963	10,748
Repayment of loan stock		–	(50,000)
Interest received		1,198	2,373
Net cash from financing activities		4,009,124	648,221
Increase/(decrease) in cash and cash equivalents		484,395	(155,818)
Cash and cash equivalents at beginning of year		278,456	434,274
Cash and cash equivalents at end of year		762,851	278,456

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

Notes to the Financial Statements

For the year ended 31 December 2016

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

1.1 GENERAL INFORMATION

Tern plc is an investing company specialising in private software companies, predominantly in the Internet of Things.

The Company is a public limited company, incorporated in England and Wales, with its shares traded on AIM, a market of that name operated by the London Stock Exchange.

The address of Tern's registered office is 9 Catherine Place, London, SW1E 6DX. Items included in the financial statements of the Company are measured in Pound Sterling, which is the Company's presentational and functional currency.

1.2 BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union (EU) and therefore the financial statements comply with Article 4 of the EU IAS Regulation.

IFRS is subject to amendment and interpretation by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) and there is an ongoing process of review and endorsement by the European Commission. The financial statements have been prepared on the basis of the recognition and measurement principles of the IFRS that were applicable at 31 December 2016.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies set out below have been consistently applied to all periods presented, except where stated.

In accordance with IFRS 10, par 4 the Company has taken the exemption not to present consolidated financial statements as it is an investing company that measures all of its investments at fair value through the income statement.

1.3 GOING CONCERN

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

The directors have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Company's financial statements.

1.4 STATEMENT OF COMPLIANCE

Issued International Financial Reporting Standards (IFRS) and Interpretations (IFRICS) relevant to Group operations

Management has not yet made an assessment of the impact of IFRS9, effective for periods beginning on or after 1 January 2018.

Standards, interpretations and amendments to published standards that are not yet effective

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

1. ACCOUNTING POLICIES (continued)

1.5 TURNOVER

Turnover is recognised, as amounts are invoiced, earned and become payable, with adjustment for any amount that is considered uncollectable. Turnover reflects fees charged for management services and is recognised rateably over the life of the contract and the provision of such services.

1.6 TAXATION

The charge for current tax is based on the results for the period as adjusted for items which are non-assessable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs to its tax base, except for differences arising on:

- the initial recognition of an asset or liability which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that the taxable profit will be available against which the differences can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered). Deferred tax balances are not discounted.

1.7 IMPAIRMENT OF FINANCIAL ASSETS

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment charge was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

1.8 INVESTMENTS

Investments are recognised at fair value through the income statement and designated as held for trading.

1.9 TRADE RECEIVABLES

Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Notes to the Financial Statements

For the year ended 31 December 2016

1. ACCOUNTING POLICIES (continued)

1.10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the statement of financial position at cost. Cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the statement of financial position.

1.11 TRADE PAYABLES

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

1.12 EQUITY INSTRUMENTS

Equity instruments are recorded at the proceeds received net of direct issue costs.

1.13 CONVERTIBLE LOANS

Convertible loans are accounted for as compound instruments. The fair value of the liability portion of the convertible loan notes is determined using a market interest rate for an equivalent non-convertible loan note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the loan notes. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in shareholders' equity, net of tax effects, and is not subsequently re-measured.

1.14 SHARE BASED PAYMENTS

All share based payments are accounted for in accordance with IFRS 2 – "Share-based payments". The Company issues equity-settled share based payments in the form of share options to certain directors, employees and advisors. Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

Fair value is estimated using the Black-Scholes valuation model. The expected life used in the model has been adjusted, on the basis of management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. At each statement of financial position date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to retained earnings.

2. FINANCIAL RISK MANAGEMENT

The Company uses a limited number of financial instruments, comprising cash, short-term deposits, loans and overdrafts and various items such as trade receivables and payables, which arise directly from operations. The Company does not trade in financial instruments.

2.1 FINANCIAL RISK FACTORS

The Company's financial instruments comprise its investment portfolio, cash balances, debtors and creditors that arise directly from its operations. The Company is exposed to market risk through the use of financial instruments and specifically to liquidity risk, market price risk and credit risk, which result from the Company's operating activities.

The Board's policy for managing these risks is summarised below.

2. FINANCIAL RISK MANAGEMENT (continued)

2.1 FINANCIAL RISK FACTORS (continued)

Liquidity risk

The Company makes investments in private companies for the medium term. The Company manages this risk by holding cash to support its investments and for working capital. The Company has no borrowings, save convertible loans from the directors. Whilst the Company has no quoted investments at present, if it holds such investments these may be sold to meet the Company's funding requirements.

As the Company has no significant interest bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The following table shows the contractual maturities of the Company's financial liabilities, including repayments of both principal and interest where applicable.

As at 31 December 2016	Trade and other Payables £	Convertible Loans £	Total £
6 months or less	77,567	104,440	182,007
1 to 2 years	–	–	–
Total contractual cash flows	77,567	104,440	182,007

Market price risk

When the Company owns quoted investments, it will be exposed to market price risk as shown by movements in the value of its equity investments. Any such risk will be regularly monitored by the directors.

The investments currently held are not liquid as all the investments are unquoted.

Credit risk

The Company's primary credit risk arises from cash and cash equivalents and deposits with banks and other financial institutions. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

2.2 CAPITAL RISK MANAGEMENT

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

The Company monitors capital on the basis of carrying amount of equity, less cash and cash equivalents as presented on the face of the statement of financial position. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

2.3 FAIR VALUE ESTIMATION

The nominal value less impairment provision of trade receivables and payables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Income taxes

Judgement is required in determining the Company's provision for income tax. Where the final tax outcome is different from the amounts that were initially recorded, the differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Fair value of financial instruments

The Company holds investments that have been designated as held for trading on initial recognition. Where practicable the Company determines the fair value of these financial instruments that are not quoted (Level 3) using the most recent bid price at which a transaction has been carried out. These techniques are significantly affected by certain key assumptions, such as market liquidity. Given the nature of the investments being early stage business, other valuation methods such as discounted cash flow analysis assess estimates of future cash flows to derive fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realised immediately.

The reason for the increase in valuation is due to Device Authority Limited (formerly Cryptosoft Limited) merging with Device Authority Inc. As a result of merging the shareholders of the combined entity valued the combined business on acquisition at £13.6 million (post new money). Device Authority is an early stage business in an emerging market where there is a lack of comparative businesses available on which to provide a comparable valuation and therfore valuation was based on the price of shares in the most recent fund raise, which is taken as fair value and an unrealised gain of £6.1 million was recognised.

Share based payments

The calculation of the fair value of equity-settled share based awards and the resulting charge to the statement of comprehensive income requires assumptions to be made regarding future events and market conditions. These assumptions include the future volatility of the Company's share price. These assumptions are then applied to a recognised valuation model in order to calculate the fair value of the awards. Details of these assumptions are set out in Note 17.

4. SEGMENTAL REPORTING

The accounting policy for identifying segments is based on internal management reporting information that is regularly reviewed by the chief operating decision maker, which is identified as the Board of Directors.

In identifying its operating segments, management generally follows the Company's service lines which represent the main products and services provided by the Company. The directors believe that the Company's continuing investment operations comprise one segment.

Notes to the Financial Statements

For the year ended 31 December 2016

5. STAFF COSTS

Staff costs for the Company during the period, including directors	2016 £	2015 £
Wages and salaries	117,052	69,965
Consultancy fees	76,938	42,500
Social security costs	6,681	5,523
Share based payment charge	15,317	95,818
Total staff costs	215,988	213,806

The average number of people (including executive directors) employed by the Company during the period was:

	2016 No	2015 No
Directors	5	4.5
Total	5	4.5

DIRECTORS' AND REMUNERATION

Other than directors the Company had no employees. Total remuneration paid to directors during the period was as follows:

	2016 £	2015 £
Directors' remuneration		
– Salaries and benefits	117,052	69,965
– Consultancy fees	76,938	42,500
– Share based payment charge	15,317	95,818
Total directors' remuneration	209,307	208,283
Total remuneration of the highest paid director (including share based payment charge) was	54,500	47,970

A summary of remuneration paid to each director, including pension payments, is included in the Report on Directors' Remuneration (page 20).

6. OPERATING PROFIT/(LOSS)

	2016 £	2015 £
Profit/(Loss) from operations has been arrived at after charging:		
Remuneration of directors	215,988	213,806
Bad debt recovery	–	(37,500)
Auditor's remuneration		
– Audit services	20,000	12,000
– Tax compliance services	3,500	1,500

6. OPERATING PROFIT/(LOSS) (continued)

	2016 £	2015 £
Device Authority auditors' remuneration		
– Audit services	14,000	4,500
– Tax compliance services	3,500	3,000
– Research and development tax credits	5,000	–

7. FINANCE COSTS

	2016 £	2015 £
Interest charge in respect of shareholder convertible loan notes	7,046	24,480
Write back of interest charged on investee company convertible loan note	9,413	–
	16,459	24,480

8. TAXATION

	2016 £	2015 £
Taxation attributable to the Company	–	–

Domestic income tax is calculated at 20% (2015: 20%) of the estimated assessable profit for the period. The charge for the period can be reconciled to the loss per the income statement as follows:

	2016 £	2015 £
Profit/(Loss) before tax	5,296,633	(185,121)
Tax at domestic income tax rate	1,059,327	(37,024)
Expenses not deductible for tax purposes	996	891
Share based payment charge	38,260	19,905
Fair value movement	(1,151,696)	(12,698)
Unutilised tax losses	53,113	28,926
Tax (credit)/expense	–	–

The Company has unutilised losses of approximately £5.1 million (2015: £4.8 million) resulting in a deferred tax asset of approximately £1.0 million (2015: £1.0 million). The Company has not recognised a deferred tax asset in respect of these losses as there is insufficient evidence of future taxable profits.

Notes to the Financial Statements

For the year ended 31 December 2016

9. EARNINGS PER SHARE

	2016 £	2015 £
Profit/(loss) for the purposes of basic and fully diluted earnings per share	5,296,633	(185,121)

	2016 Number	2015 Number
Weighted average number of ordinary shares:		
For calculation of basic earnings per share	82,298,281	49,375,127
For calculation of fully diluted earnings per share	82,298,281	49,375,127

	2016	2015
Earnings per share:		
Basic earnings/(loss) per share	6.4 pence	(0.37 pence)
Fully diluted earnings/(loss) per share	6.4 pence	(0.37 pence)

10. NON-CURRENT ASSETS

INVESTMENTS HELD FOR TRADING

	2016 £	2015 £
Cost of investments brought forward	810,350	631,978
Additions	3,460,000	114,880
Conversion of loan note to equity	610,000	–
Sale of investment	(37,500)	–
Cost of investments carried forward	4,842,850	746,858
Fair value adjustment to investments	5,758,480	63,492
Fair value of investments carried forward	10,601,330	810,350

All the investments held by the Company are Level 3 investments as defined in Note 15.

LOANS TO INVESTEE COMPANIES

	2016 £	2015 £
Loans to investee companies	–	610,000
Interest	–	9,413
Total Loans	–	619,413

During the year loan the loan facility provided to Device Authority was converted into new ordinary A shares of Device Authority Limited at par.

Notes to the Financial Statements

For the year ended 31 December 2016

11. TRADE AND OTHER RECEIVABLES

	2016 £	2015 £
Trade receivables	1,034	82,000
Prepayments	32,033	10,042
Social security and other taxes	6,472	–
Other receivables	60,976	25,000
Total	100,515	117,042

In 2016, other receivables included an amount of £60,976 in respect of deferred consideration on the sale of Concerto.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. There is no provision for bad debt.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Company does not hold any collateral as security.

12. CASH AND CASH EQUIVALENTS

	2016 £	2015 £
Cash at bank and on hand	762,851	278,456

Notes to the Financial Statements

For the year ended 31 December 2016

13. ISSUED SHARE CAPITAL

	Number of shares No.	Nominal value £	Share premium £
ISSUED AND FULLY PAID:			
At 31 December 2015			
Ordinary shares of £0.0002	62,755,569	12,550	
Deferred shares of £29.999	42,247	1,267,368	
Deferred shares of £0.00099	34,545,072	34,200	
	97,342,888	1,314,118	8,393,536
Ordinary shares issued for cash	52,157,723	10,432	4,164,568
Ordinary shares issued on exercise of warrant	198,151	40	3,923
Ordinary shares issued on conversion of loan stock	3,400,000	680	41,820
Share issue expenses	–	–	(213,537)
	153,098,762	1,325,270	12,390,310
At 31 December 2016			
Ordinary shares of £0.0002	118,511,443	23,702	
Deferred shares of £29.999	42,247	1,267,368	
Deferred shares of £0.00099	34,545,072	34,200	
	153,098,762	1,325,270	12,390,310

On 19 February 2016, 9,166,666 ordinary shares were issued at 12p per share for cash as the result of a private placing, raising £1,100,000 before expenses.

On 19 July 2016, 6,562,500 ordinary shares were issued at 8p per share for cash as the result of a private placing, raising £525,000 before expenses.

On 7 October 2016, 36,428,557 ordinary shares were issued at 7p per share for cash as the result of a private placing, raising £2,550,000 before expenses.

During the year 3,400,000 ordinary shares of 0.02p were issued to a previous director of the Company on conversion of loan stock at 1.25p per share.

During the year 198,151 ordinary shares of 0.02p were issued to warrant holders on exercise of warrants at 2p per share.

14. TRADE AND OTHER PAYABLES

	2016 £	2015 £
Trade payables	73,554	4,375
Accruals	94,950	28,000
Other taxes and social security	4,013	3,611
Total	172,517	35,986

The directors consider that the carrying amount of trade payables approximates to their fair value.

15. FAIR VALUE MEASUREMENT

FINANCIAL ASSETS

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, held to maturity, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial instrument was acquired. Management determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each financial period end.

When financial assets are recognised initially, they are measured at fair value, being the transaction price plus directly attributable transaction costs.

Investments held for trading

All investments determined upon initial recognition as held at fair value through profit or loss are designated as investments held for trading. Investment transactions are accounted for on a trade date basis. Asset sales are recognised at the trade date of the disposal. Assets are sold at their fair value, which comprises the proceeds of sale less any transaction cost. The fair value of the financial instruments in the statement of financial position is based on the quoted bid price at the statement of financial position date, with no deduction for any estimated future selling cost. Unquoted investments are valued by the directors using primary valuation techniques such as recent transactions, last price and net asset value. Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the statement of comprehensive income as "movement in fair value of investments". Investments are initially measured at fair value plus incidental acquisition costs. Subsequently, they are measured at fair value in accordance with IAS 39. This is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted.

The Company determines the fair value of its investments based on the following hierarchy:

LEVEL 1 – Where financial instruments are traded in active financial markets, fair value is determined by reference to the appropriate quoted market price at the reporting date. Active markets are those in which transactions occur in significant frequency and volume to provide pricing information on an on-going basis.

LEVEL 2 – If there is no active market, fair value is established using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable market data including recent arm's length market transactions, and comparisons to the current fair value of similar instruments; but where this is not feasible, inputs such as liquidity risk, credit risk and volatility are used.

LEVEL 3 – Valuations in this level are those with inputs that are not based on observable market data.

The following table shows the Levels within the hierarchy of investments measured at fair value on a recurring basis at 31 December 2016 and 31 December 2015:

31 December 2016	Level 1	Level 2	Level 3	Total
Investments held for trading (£)	–	–	10,601,330	10,601,330

31 December 2015	Level 1	Level 2	Level 3	Total
Investments held for trading (£)	–	–	810,350	810,350

The fair value assessment was made by the directors' using the price of the shares in the most recent fundraise, where this was available. If no such fundraise had occurred then the cost of the investment was used, which the directors assessed equated to fair value.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available-for-sale. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

16. BORROWINGS

SHAREHOLDER LOANS

On 16 August 2013, the Company entered into an agreement for the issue of £200,000 convertible loan notes repayable on 1 January 2015 if not converted prior to that date, this date was subsequently extended to 1 January 2016 in December 2014. The Shareholder Loans are interest free and unsecured and may be converted at 2.016p per share at any time prior to the redemption date. In December 2016 the repayment date for the balance of the loan outstanding was extended to 1 January 2019. On 1 January 2016 and 31 December 2016, £15,000 of this loan was outstanding. Assuming full conversion, this would convert into 744,047 ordinary shares.

On 30 July 2014, the Company issued a convertible loan note for £100,000, interest free and repayable on 1 January 2016. In December 2016, the repayment date for the balance of the loan outstanding was extended to 1 January 2019. The loan is convertible at 1.25p per share at any time prior to the redemption date. On 1 January 2016 and 31 December 2016 £41,500 of the loan was outstanding. Assuming full conversion, this would convert into 3,320,000 ordinary shares.

On 17 September 2014, the Company issued £200,000 convertible loan notes, interest free and repayable on 1 January 2016. The loan is convertible at 1.25p per share at any time prior to the redemption date. In December 2016 the repayment date for the balance of the loan outstanding was extended to 1 January 2019. On 1 January 2016 and 31 December 2016 £55,500 of the loan was outstanding. Assuming full conversion, this would convert to 4,440,000 ordinary shares.

The net proceeds from the issue of the Shareholder Loans have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Company.

	2016 £	2015 £
Liability brought forward	97,394	260,914
Adjustment to equity component on extension of convertible loan	–	(247)
Loan notes converted	–	(187,753)
Interest charge	7,046	24,480
Liability at 31 December	104,440	97,394

LOAN MATURITY ANALYSIS	2016 £	2015 £
Non-current liabilities – More than one year, but not more than five years	104,440	97,394
	104,440	97,394

Notes to the Financial Statements

For the year ended 31 December 2016

17. SHARE BASED PAYMENTS

WARRANTS

On 15 September 2014, 396,302 warrants were issued to the vendor of Device Authority Limited, exercisable at any time prior to 12 September 2017. 198,151 of the warrants exercisable at 2p per share and 198,151 are exercisable at 4p per share. During the year 198,151 of the warrants were exercised at 2p per share. The estimated fair value of these warrants at the date of issue is not considered material.

On 25 November 2014, 1,260,000 warrants were issued on a one for ten basis to subscribers to the placing for 12,600,000 shares at 3p per share on that date. The warrants are exercisable at 3p per share at any time prior to 3 December 2017. As at 31 December 2016 905,645 warrants remained outstanding.

On 7 October 2016, 18,214,277 warrants were issued on a one for every two shares to subscribers in the fund-raising round on that date. In that round, 36,428,557 shares were issued at 7p per share. The warrants are exercisable at 12p per share at any time prior to 12 April 2018. None of these warrants were exercised during the year.

The estimated fair value of the warrants issued in 2016 was calculated by applying the Black-Scholes option pricing model. The assumptions used in the calculation were as follows:

Share price at date of grant	8.0 pence
Exercise price	12.0 pence
Expected dividend	Nil
Contractual life	1.5 years from vesting date
Risk free rate	2.5%
Estimated fair value of each warrant	0.97 pence

A total share based payment charge of £175,982 was expensed in 2016 in respect of the warrants issued.

The number of warrants outstanding at 31 December 2016 was as follows:

Date of issue	At 31 Dec 2015	Issued	Exercised	Lapsed	At 31 Dec 2016	Exercise Price per share	Exercisable on or before
12.09.14	198,151	–	(198,151)	–	–	2.0p	12.09.17
12.09.14	198,151	–	–	–	198,151	4.0p	12.09.17
25.11.14	905,645	–	–	–	905,645	3.0p	3.12.17
07.10.16	–	18,214,277	–	–	18,214,277	12.0p	12.04.18
	1,301,947	18,214,277	(198,151)	–	19,318,073		

Notes to the Financial Statements

For the year ended 31 December 2016

17. SHARE BASED PAYMENT CHARGES (continued)

OPTIONS

The Company operates an equity settled share based remuneration scheme for directors and advisors. Under the directors' scheme options may be granted to purchase shares which must be exercised within seven years from the date of the grant.

The exercise price of directors' options outstanding at the end of the 2015 varied between 9p and 15.25p with a weighted average exercise price of 10p. The options issued in 2016 had an exercise price of 13p with an exercise price of 12.5p. The directors' options vest immediately on issue.

In 2015 share options were issued to a professional adviser as part of their fees. Under the advisors' scheme options may be granted to purchase shares which must be exercised within five years from the date of grant. The advisor options vest quarterly over the first twelve months.

The Black Scholes method was used to calculate the fair value of options at the date of grant.

The table below lists the inputs to the model used for the options granted during the year:

	Directors (2015)	Directors (2016)	Advisors
Weighted average share price at date of grant	7.5 pence	13 pence	14.25 pence
Weighted average exercise price	10 pence	12.5 pence	15 pence
Expected volatility	50%	50%	50%
Vesting period	1	1	4
Contractual life	7 years	7 years	5 years
Risk free rate	0.48%	0.48%	0.48%

A total share based payment charge of £15,317 was expensed in 2016 (2015: £99,523) in respect of the options granted, of this £15,317 (2015: £95,818) related to options issued to directors during the year.

The share options held as at 31 December 2016 are set out in the table below:

	Outstanding at 31 December 2015	Granted during the period	Exercised during the period	Outstanding at 31 December 2016	Option Price	Exercisable on or before
Directors	1,500,000	–	–	1,500,000	9p	15 Feb 2022
	500,000	–	–	500,000	15.25p	28 Oct 2022
	–	250,000	–	250,000	13p	22 Feb 2023
Total Directors	2,000,000	250,000	–	2,250,000		
Other	1,000,000	–	–	1,000,000	9p	15 Feb 2022
	250,000	–	–	250,000	15p	16 Dec 2020
Total Options	3,250,000	250,000	–	3,500,000		

Note: A detailed breakdown of directors' options is set out in the Report on Directors' Remuneration.

18. RELATED PARTY TRANSACTIONS

During 2014, £300,000 was advanced by the directors by way of interest free convertible loans. At 31 December 2016, the balance of loans unconverted was £104,440 (2015: £97,394), plus an additional £20,650 relating to equity (2015: £20,650).

Device Authority Limited, a company in which Tern has a controlling shareholding, is also considered a related party. During the year Tern invoiced Device Authority Limited £39,715 (2015: £161,363) in respect of management services, facility fees and expenses. At the year-end Tern was owed £nil in trade receivables by Device Authority Limited (2015: £82,000). Tern has also provided a loan facility to Device Authority Limited. The loan was converted into equity during the year. As at 31 December 2016, £nil was outstanding (2015: 619,432).

flexiOPS Limited, a company wholly owned by Tern, is also considered a related party. During the year Tern invoiced flexiOPS £30,000 (2015: nil) in respect of management services. At the year-end Tern was owed £1,034 in trade receivables by flexiOPS Limited.

During the year, Leith Partners Limited, a company in which Bruce Leith has a controlling shareholding, invoiced the Company £24,000 for management services (2015: £18,200). There were no amounts outstanding to or from the company at 31 December 2016.

During the year, Sixth Bridge LLC, a company in which Al Sisto has a controlling shareholding, invoiced the Company £37,938 for management services (2015: £24,000). There were no amounts outstanding to or from the company at 31 December 2016.

During the year, Alan Howarth & Associates Limited, a company in which Alan Howarth has a controlling shareholding, invoiced the Company £15,000 for management services (2015: £3,000). There were no amounts outstanding to or from the company at 31 December 2016.

19. CASH FLOW FROM OPERATIONS

	2016 £	2015 £
Profit/(Loss) for the year	5,296,633	(185,121)
Adjustments for items not included in cash flow:		
Movement in fair value of investments	(5,758,480)	(63,492)
Share based payment charge	191,299	99,523
Cost of investment sold	37,500	–
Finance expense	16,459	24,480
Finance income	(1,198)	(11,786)
Operating cash flows before movements in working capital	(217,787)	(136,396)
Adjustments for changes in working capital:		
(Increase)/decrease in trade and other receivables	16,527	184,014
Increase/(decrease) in trade and other payables	136,531	(126,777)
Cash used in operations	(64,729)	(79,159)

20. OPERATING LEASE COMMITMENTS

	Year to 31 Dec 2016 £	Year to 31 Dec 2015 £
Minimum lease payments under operating leases recognised as an expense in the period	3,125	3,125

At the period end date, the Group had outstanding commitments for future minimum lease payments under non-cancellable leases which fall due as follows:

	31 Dec 2016 £	31 Dec 2015 £
Land and Buildings:		
Within one year	3,125	3,125

21. FINANCIAL INSTRUMENTS

The Group uses financial instruments, other than derivatives, comprising cash to provide funding for the Group's operations.

CATEGORIES OF FINANCIAL INSTRUMENTS

The IAS 39 categories of financial asset included in the statement of financial position and the headings in which they are included are as follows:

	2016 £	2015 £
FINANCIAL ASSETS:		
Cash and bank balances	762,851	278,456
Loans and receivables		
Loans	–	619,413
Other receivables	62,010	82,000
Fair value through income statement		
Investments held for trading	10,601,330	810,350

FINANCIAL LIABILITIES AT AMORTISED COST:

The IAS 39 categories of financial liabilities included in the statement of financial position and the headings in which they are included are as follows:

	2016 £	2015 £
Trade and other payables	73,554	4,375
Accruals	94,950	28,000
Borrowings	104,440	97,394

22. EVENTS AFTER THE REPORTING PERIOD

On 31 January 2017, Device Authority, the Company's largest investment, announced the appointment of George Samenuk as a non-executive director.

23. ULTIMATE CONTROLLING PARTY

The directors do not consider there to be a single ultimate controlling party.

Notice of 2017 Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2017 Annual General Meeting of the Company will be held at 9.30 am on 16 March 2017 at the offices of Reed Smith, The Broadgate Tower, 20 Primrose Street, London, EC2A 2RS for the following purposes:

ORDINARY BUSINESS

To consider, and if thought fit, to pass the following resolutions as ordinary resolutions:

1. To receive and adopt the Company's annual accounts for the financial year ended 31 December 2016, together with the Directors' Report and Auditors' Report on those accounts.

2. To re-appoint Grant Thornton UK LLP as auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company at a remuneration to be determined by the directors.

3. Mr Al Sisto retires by rotation, in accordance with the Articles of Association of the Company, having consented to be considered for re-election, and is hereby re-elected as director.

SPECIAL BUSINESS

To consider, and if thought fit, to pass the following resolutions, of which resolution 4 will be proposed as an ordinary resolution and resolutions 5 and 6 will be proposed as special resolutions:

4. That for the purpose of section 551 of the Companies Act 2006 (the Act) the directors of the Company be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot equity securities (within the meaning of Section 560 of the Act) up to an aggregate nominal amount of £50,000 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next annual general meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require relevant equity securities to be allotted after such expiry and the board may allot relevant equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

   This authority is in substitution for all subsisting authorities previously conferred upon the directors for the purposes of section 551 of the Act, without prejudice to any allotments made pursuant to the terms of such authorities.

5. That, subject to the passing of resolution 4 above, the directors of the Company be and are hereby empowered pursuant to section 570 of the Act to allot equity securities (within the meaning of section 560 of the Act) pursuant to the authority conferred by resolution 4 above as if section 561 of the Act did not apply to any such allotment provided that the power conferred by this resolution shall be limited to:

   5.1 the allotment of equity securities for cash in connection with an issue or offer of equity securities (including, without limitation, under a rights issue, open offer or similar arrangement) to holders of equity securities in proportion (as nearly as may be practicable) to their respective holdings of equity securities subject only to such exclusions or other arrangements as the board may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange in any territory; and

   5.2 the allotment (otherwise than pursuant to sub-paragraph 5.1 of this resolution (5) of equity securities up to an aggregate nominal value of £50,000.

   The power conferred by this resolution 5 shall expire (unless previously renewed, revoked or varied by the Company in general meeting), at such time as the general authority conferred on the board by resolution 4 above expires, except that the Company may at any time before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors of the Company may allot or sell equity securities for cash in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Notice of 2017 Annual General Meeting

6. That the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the 2006 Act) of its Ordinary Shares provided that:
   - 6.1 the maximum number of Ordinary Shares authorised to be purchased is 10% of the entire issued share capital of the Company;
   - 6.2 the minimum price which may be paid for an Ordinary Share is £0.0002;
   - 6.3 the maximum price which may be paid for an Ordinary Share is an amount equal to 105% of the average of the middle-market prices shown in the quotation for an Ordinary Share as derived from the Stock Exchange Alternative Trading Service of the Stock Exchange for the 5 business days immediately preceding the day on which the Ordinary Share is purchased;
   - 6.4 the authority hereby conferred shall expire on the earlier of the date falling 15 months after the Annual General Meeting or on the conclusion of the next annual general meeting of the Company to be held in 2018; and
   - 6.5 the Company may make a contract to purchase its Ordinary Shares under the authority hereby conferred prior to the expiry of such authority, which contract will or may be executed wholly or partly after the expiry of such contract.

By Order of the Board
Sarah Payne,
Company Secretary
Dated 16 February 2017

Notes to the AGM notice

1. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001 and by paragraph 18(c) of The Companies Act (Consequential Amendments) (Uncertificated Securities) Order 2009, only those members entered on the Company's register of members not later than 9.30 am on Tuesday 14 March 2017, or if the meeting is adjourned, Shareholders entered on the Company's register of members not later than 2 days before the time fixed for the adjourned meeting (excluding non-business days) shall be entitled to attend and vote at the meeting.

2. A member of the Company entitled to attend and vote at this meeting is entitled to appoint a proxy (or proxies) to attend, speak and vote in his place. A proxy need not be a member of the Company. You can only appoint a proxy using the procedures set out in these notes and the notes to the Form of Proxy.

3. To be effective, the Form of Proxy must be deposited at the office of the Company's registrars, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR so as to be received not later than 9.30 am on Tuesday 14 March 2017, or if the meeting is adjourned, not later than 48 hours before the time fixed for the adjourned meeting.

4. To change your proxy instructions simply submit a new proxy appointment using the methods set out above and in the notes to the Form of Proxy. Note that the cut-off times for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

   Where you have appointed a proxy and would like to change the instructions, please contact the Company's registrars, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR.

5. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's registrars, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

   In either case, the revocation notice must be received by the Company's registrars, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR no later than 9.30 am on Tuesday 14 March 2017.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified above, then your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

6. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by our agent Share Registrars (ID 7RA36) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

   CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

Perivan Financial Print 243733

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