Kape®

(Formerly: Crossrider plc)

Annual Report & Accounts **2017**

Kape is a cybersecurity company which utilises its proprietary digital distribution technology to optimise its reach and create a superb user experience. Kape offers products which provide online security, privacy and an optimal online experience. Kape's vision is to provide online autonomy for a secure and accessible personal digital life.

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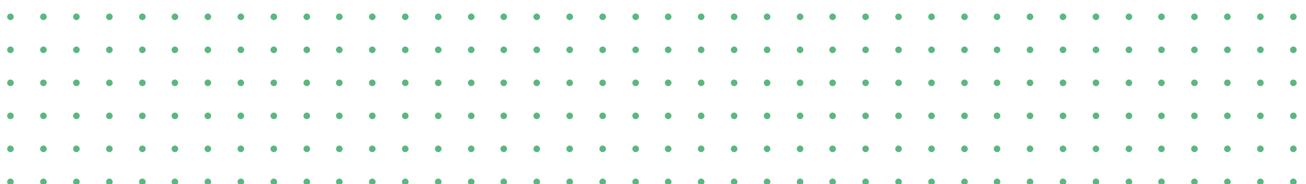


$8.3m
Adjusted EBITDA

$66.4m
Revenue

$69.5m
Cash balance and no debt

$7.6m
Adjusted cash flow from operations

92%
Conversion of adjusted EBITDA

Acquisition of CyberGhost, a leading SaaS cybersecurity provider

Significant growth in paying users

Substantial progress made in transitioning the business towards a pure SaaS model

2017 has been a pivotal year for our business in which we fully aligned our operations to focus on cybersecurity software.

DON ELGIE
NON-EXECUTIVE CHAIRMAN

Introduction
2017 has been a pivotal year for our business in which we fully aligned our operations to focus on cybersecurity software.

Our management team has worked tirelessly to deliver on our stated growth objectives which has now culminated in the renaming and rebranding of the business to Kape Technologies plc (previously Crossrider plc), an important milestone in the repositioning of the business. Since October 2016, the Company has focused on both acquiring and developing cybersecurity software solutions for consumers, whilst utilising its proprietary digital distribution technology to grow its user base across the Company's product suite.

The Company's management has deployed Kape's in-depth expertise and technological capabilities within its digital marketing platform to support and grow our expanded customer base and promote our own products and services. This market leading digital pedigree has enabled the Group to accelerate the Company's successful transformation during 2017.

Products
In the last year, management has taken great strides to broaden our product stack, which includes our Reimage software and DriverAgent solutions. In March 2017, we acquired CyberGhost, a cybersecurity SaaS provider with specific focus on the provision of virtual private network ("VPN") solutions, as well as a sizeable customer base. With CyberGhost now fully integrated into the Group, I am pleased to report it has performed ahead of management's expectations both on a revenue and profit level.

In addition, and as part of the expansion into new products, the Company has launched Reimage for Mac, expanding the product's potential customer base.

We continue to experience positive customer traction across all our products, further demonstrating our ability to successfully leverage our expertise and digital marketing platform in order to drive higher margins.

Strategic priorities
Our management team remains committed to delivering sustainable growth and is therefore focused on the following key strategic priorities:

- to develop the Company's product offering organically through internal R&D and to grow our user base across the Company's growing portfolio of software products, leveraging Kape's proprietary distribution technology and expertise;
- to continue to implement our plan for new acquisitions that expand both the Company's product offering and reach, with the potential to enter additional complementary sector verticals; and
- to grow the Company's recurring revenue stream by gradually transitioning to a fully SaaS-based model, which will improve both the visibility and quality of earnings, as well as increasing the lifetime value of our customers.

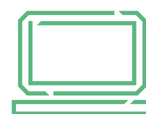
Board appointments
In February 2017, the Company appointed Moran Laufer, Chief Financial Officer of Kape, to the Board of the Company. Moran has been a key member of the Company's management, supporting its recent acquisitions as well as being part of the finance team since 2012, successfully supporting the Group's admission to AIM in 2014.

Looking forward
Kape's management has been successful in demonstrating its ability to both drive organic growth initiatives alongside maximising the benefits from strategic acquisitions.

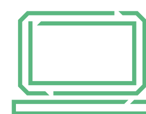
The Board is therefore confident that with its new brand positioning, strategic growth priorities and ongoing focus on consumer cybersecurity, Kape will be able to continue to maximise shareholder value.

The Board remains confident in delivering year-on-year growth in 2018.

Don Elgie
Non-Executive Chairman
12 March 2018



887,000
paying customers

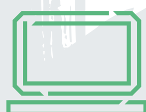


82%
growth in premium subscriptions

CHIEF EXECUTIVE OFFICER'S REVIEW

IDO ERLICHMAN
CHIEF EXECUTIVE OFFICER

Over the past 12 months we have delivered on our growth strategy. The group has made significant headway in developing our product suite, which has been greatly enhanced.



172%
underlying Adjusted EBITDA

Introduction

When I joined Kape (formerly Crossrider plc) in May 2016, I did so with a clear vision of where I, with the full support of the Board, wanted to take this business. It was clear that despite our pedigree in digital marketing, our future laid beyond adtech.

I am therefore delighted to look back at 2017 as a year of significant strategic and operational progress. Over the past 12 months we have delivered on a number of key milestones and taken notable steps to becoming one of the leading next generation providers of consumer cybersecurity products.

We have built on our existing PC repair (Reimage) and device driver update (DriverAgent) solutions, through both the acquisition and internal development of new products during the year, which is a clear sign of our ambition.

Central to our strategy has been to shift our product focus to be B2C-driven and SaaS enabled thereby increasing our recurring revenue base, creating a more predictable sales platform from which to grow.

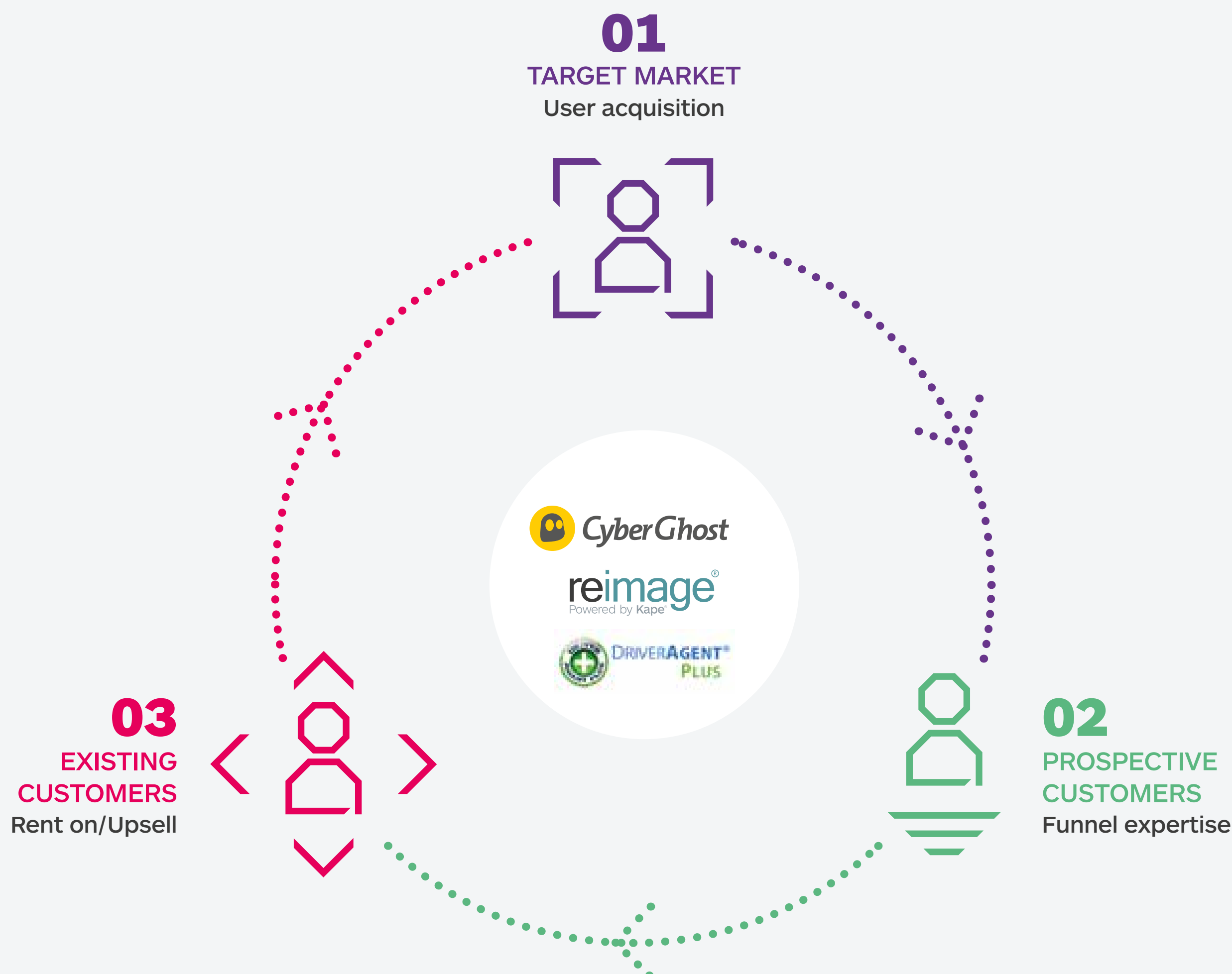
We are therefore delighted to have delivered such a strong underlying EBITDA performance, up 172%, excluding the Web Apps and License segment, further demonstrating the excellent performance of our business model.

Operational update

In March 2017, we acquired CyberGhost, a leading cybersecurity SaaS provider with a focus on the provision of virtual private network ("VPN") solutions. The acquisition was successfully integrated into Kape by June 2017 and I am delighted to report, made a positive net profit contribution in the year of $1.5 million.

With CyberGhost now consolidated into the larger Kape operation, we have been successful in generating significant synergies and delivering superior customer traction post-integration with our digital user acquisition platform. This resulted in an increase in CyberGhost's user base by over 30% compared to December 2016 and the last quarter of 2017 saw record sales for the business in terms of volume and EBITDA.

We have grown Kape's product portfolio this year and it now consists of four main products: the CyberGhost VPN, a SaaS product, as well as the Reimage PC, DriverAgent and Reimage for Mac, which are purchased on a one-time and yearly unlimited use basis with a technical support component. We have started to implement a SaaS model in the Reimage PC and expect to see the results of this change towards the end of 2018 when the licences come up for renewal. In addition, we started to utilise the growth in our product offering and user base and we now offer to purchase CyberGhost and Reimage as a package, providing our customers the best in class products in one place.



01 TARGET MARKET

User acquisition

- Advanced user acquisition technology and leveraging of digital marketing platform
- Utilise extensive network to drive users to our products
- Leverage wide user base for indirect user acquisition
- Highly efficient method to drive traffic

Organic

- High brand awareness drives users to our products
- Referrals from existing customers
- Consumers go directly to our product websites or search for our product as a result of growing media presence

02 PROSPECTIVE CUSTOMERS

Funnel expertise

- Proprietary data driven automatic funnel
- Ongoing customisation of product
- Automatic personalisation of user journey
- Proprietary targeting of purchase process

03 EXISTING CUSTOMERS

Rent on/Upsell

- Once acquired, provide a subscription model to grow customer's LTV
- Provide servicing such as remote technician and 24/7 support to increase customer retention
- Convert users to additional Kape products by channelling customers to further owned software solutions
- Increase the value of the user

To implement the change in business model and focus on profitability, growth and earning predictability, we have instated five key performance indicators which guide how we measure the success of our operations across the business:

- deferred income;
- adjusted operating cash flow;
- retention rate;
- paying users; and
- premium subscriptions.

Deferred income and adjusted operating cash flow are key measures as they demonstrate the true value of each product purchase from our customers, given that they recognise the benefits across the lifetime of the contract. Paying users and premium subscriptions represent our ability to grow our customer base and we expect these to grow over time. The retention rate is an indication of the quality of our service and products and our aim is for this to remain constant over time and improve in the medium term.

Key Performance Indicators

	2017	2016
Paying users (thousands)	**887**	734
Premium subscriptions (thousands)	**260**	143
Retention rate	**69%**	69%
Adjusted operating cash flow ($'000)	**7,641**	7,873
Deferred income ($'000)	**4,014**	2,187[1]

We have also been successful in growing our paying user base for Reimage and DriverAgent by over 18% and introduced a subscription based payment model. We also launched a Mac version of Reimage in September 2017 to complement our highly successful PC solution. We believe this new release will substantially grow our potential addressable market for this product.

Given our focus on further strengthening our SaaS business model, 2018 will be the first year we are able to generate significant revenues from our existing customer base. Therefore, during 2018, we expect to deliver $8.0 million of recurring income from existing users[2], which greatly improves both the visibility and quality of our earnings.

Cybersecurity market

Management identified the consumer cybersecurity space as presenting a significant opportunity for Kape, as a sizeable growth market with few nimble B2C focused-players that can easily adapt to the ever-changing digital landscape. As the internet has become increasingly central to people's lives and concurrently hacking has also evolved significantly, the sharing of data online is posing an increasing threat to individuals' online security.

In 2004, the global cybersecurity market was worth $3.5 billion and in 2017 it was worth over $120 billion, representing growth of over 35 times in 13 years, with key growth drivers including:[3]

- a growing number of internet users to c. 3.17 billion globally;
- increased network and WiFi connectivity across the world;
- commercial entities increasingly collecting personal data;
- cybercrime targeting individuals, not just enterprise-level hacks;
- heightened regulatory uncertainty around privacy and online security; and
- the emergence of the Internet of Things.

The proliferation of internet users has led to a sizeable B2C cybersecurity marketplace, with the addressable market for personal digital safety in 2018 estimated to be $10 billion. Kape is well-placed to capitalise on the increasing awareness of individuals to protect both their privacy and security online, as the Company has end-to end control over the user journey by leveraging its digital marketing technology and expertise.

The Company's renewed focus on the consumer cybersecurity market is increasingly coming to fruition, as evidenced by the strong performance of Kape's core divisions and existing software solutions in 2017. This, coupled with the acquisition and successful integration and performance of CyberGhost, is a real testament to our ability to deliver in the cybersecurity space.

Rebranding

Given the extensive re-engineering of the business, we took the decision to rename and rebrand the Company to Kape Technologies plc. Kape will be the future umbrella for all our products and services as we focus on delivering upon the following strategic priorities:

- strengthening and developing both our consumer and corporate brand globally;
- better leveraging product cross-selling opportunities within the cybersecurity arena;
- growing our product offering through both organic growth and acquisitions;
- developing and increasing our marketing reach under a unified banner; and
- further strengthening our SaaS business, thereby increasing our recurring revenue base.

Kape's core principles are to be proactive, accessible and bold. We believe there is a real need for innovative solutions for customers and a requirement for online privacy and security as individuals manoeuvre through today's ever-changing online environment. It is this shift in buying and browsing behaviour that is ultimately driving demand for our products.

Current trading and outlook

Over the past 12 months we have delivered on our stated growth strategy. The Group has made significant headway in developing our product suite, which has been greatly enhanced by the addition of CyberGhost. The launch of Reimage for Mac is a great example of our internal development capability and our unique 'in-house' digital user acquisition expertise has enabled Kape to expand our user base globally.

We are motivated by the opportunities that exist within our growing portfolio of products and continue to constantly evaluate selective acquisition opportunities which could potentially broaden our software portfolio and accelerate our expansion into the global consumer cybersecurity market.

In 2018, we are focusing on two core growth initiatives:

- to continue to grow organically against our key KPIs, including users and revenues from our existing product portfolio; and
- to deliver on growth-enhancing acquisitions which incorporate the following criteria:
  - a sizeable and growing user base;
  - an established recurring revenue model; and
  - the ability to deliver strong synergies with both Kape's digital distribution capabilities and expertise.

We have made a strong start to 2018, with record monthly sales, compared to the equivalent period in 2017, achieved across our products as we continue to reap the benefits of our renewed focus on the cybersecurity market.

The Board therefore remains confident in delivering year-on-year growth in 2018, in line with market expectations.

Special dividend

Following our robust performance this year and significant adjusted cash flow from operations of $7.6 million, the Board has declared a special dividend of 4.93 US$ cents per share, amounting to a total of $7.0 million. This is the first special dividend the Company has issued; it follows the successful transition of the business, will contribute to maintaining balance sheet efficiency and reflects our confidence in the business. The dividend shall be paid in sterling and therefore it will be subject to a conversion exchange rate from US dollars based on a GBP/USD rate of 1.3887, being the rate at 4.30 pm on 12 March 2018; as a result shareholders will receive 3.55 pence per share. The special dividend will become payable on 13 June 2018 to those shareholders on the Company's register as at the record date of 25 May 2018. The ex-dividend date is 24 May 2018.

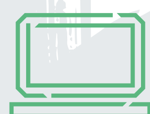
Ido Erlichman
Chief Executive Officer
12 March 2018

1 On a proforma basis if CyberGhost was part of the Group on 31 December 2016.
2 Based on deferred revenue balance and current retention rate for existing subscriptions.
3 The Cybersecurity Market Report, Q2 2017 edition by Cybersecurity Ventures.

CHIEF FINANCIAL OFFICER'S REVIEW

MORAN LAUFER
CHIEF FINANCIAL OFFICER

Strong financial performance of the core App Distribution and Media segments show a significant increase of 23.0% in revenue and 46.9% in combined segment results.



35.7%
App Distribution margin

Overview

Revenue for the year to 31 December 2017 increased by 17.4% to $66.4 million (2016: $56.5 million) and Adjusted EBITDA[1] by 28.9% to $8.3 million (2016: $6.4 million). The increase was driven by the strong financial performance of the core App Distribution and Media segments which, excluding the Web Apps and License segment, shows a significant increase of 23.0% in revenue and 46.9% in combined segment results. The increase in core activities was offset by the winding down of the Web Apps and License business that was completed in September 2017.

Kape remains a highly cash generative business, with cash generated from operations after adjusting for one-off non-recurring items of $7.6 million (2016: $7.9 million). This represents adjusted cash conversion of 92% (2016: 123%). The Group balance sheet remains strong with cash of $69.5 million at 31 December 2017 (31 December 2016: $72.1 million) and no debt.

In March 2017, Kape completed the acquisition of CyberGhost S.A for a maximum consideration of €9.1 million ($9.6 million) out of which €3.1 million ($3.3 million) was in cash at closing, €3.0 million ($3.2 million) in nominal value share options, which are subject to the continued employment of the founder over the vesting period, and a deferred earn-out consideration capped at €3.0 million ($3.2 million) million. €1.75 million ($1.9 million) was paid at closing as a prepayment of the deferred earn-out consideration. The fair value of the contingent consideration at acquisition was €1.4 million ($1.5 million). On 20 November 2017, the Company repurchased 3,810,667 options out of the 4,400,000 options granted to the founder for total cash consideration of €3.2 million ($3.8 million) following his reposition from Managing Director to Chairman and Corporate Development Manager of CyberGhost. Out of the total consideration, €1.6 million ($1.9 million) was paid upon execution of the repurchase agreement, while the remaining amount is to be paid in eight equal instalments.

In April 2017, Kape increased its holding in Clearvelvet Trading Ltd ("Clearvelvet"), a programmatic video advertising company, from 16.67% to 50.01%, for an initial consideration of $1.7 million out of which $0.8 million was in cash and $0.9 million conversion of a loan balance. The cash balance of Clearvelvet at acquisition was $1.4 million. In addition, the sellers would have been entitled to receive up to a total of $1.4 million in earn-out consideration, to be satisfied in cash subject to their continued employment by Clearvelvet. The earn-out consideration was contingent on achieving EBITDA of $1.7 million in 2017 (pro-rated from 60% of target) and $2.2 million for 2018 (pro-rated from 67% of target). The 2017 EBITDA goal was not achieved, as a result no earn-out has been charged for 2017 and no accrual made for 2018 earn-out. The earn-out consideration is accounted for remuneration in the post-acquisition income statement rather than as part of the acquisition cost.

Segment result

	Revenue		Segment result	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
App Distribution	48,226	38,241	17,207	11,267
Media	15,781	13,783	4,464	3,480
Web Apps and License	2,376	4,508	2,376	4,508
Revenue	66,383	56,532	24,047	19,255

The segment result has been calculated using revenue less costs directly attributable to that segment. Cost of sales comprises commissions paid to publishers and payment processing fees. Direct sales and marketing costs comprise traffic acquisition costs.

App Distribution

	2017 $'000	2016 $'000
Revenue	48,226	38,241
Cost of sales	(4,572)	(2,360)
Direct sales and marketing costs	(26,447)	(24,614)
Segment result	17,207	11,267
Segment margin (%)	35.7	29.5

During the period, App Distribution margins significantly improved, reaching 35.7% compared to 29.5% in 2016. The improved return on marketing investment resulted in a $10.0 million increase in revenues and $5.8 million increase in the segment result, which represents a 52.7% uplift. The increase is attributable to organic growth due to improvement in user acquisition processes and traffic quality which resulted in better conversion rates, and a decrease in average user acquisition cost as well as the addition of the DriverAgent and CyberGhost software products to the Company's portfolio in October 2016 and March 2017 respectively.

Media

	2017 $'000	2016 $'000
Revenue	15,781	13,783
Cost of sales		–
Direct sales and marketing costs	(11,317)	(10,303)
Segment result	4,464	3,480
Segment margin %	28.3	25.3

In the Media division, revenues increased by 14.5% and segment results increased by 28.3% to $4.5 million. The increase was driven by the contribution of the Clearvelvet programmatic video advertising activity that was consolidated, starting in April 2017 and compensating for a decrease in revenue from the mobile content and mobile apps marketing verticals.

Web Apps and License

	2017 $'000	2016 $'000
Revenue	2,376	4,508
Cost of sales	–	–
Direct sales and marketing costs	–	–
Segment result	2,376	4,508
Segment margin %	100.0	100.0

In accordance with the Board's decision to cease investment in the Web Apps and License segment, which Kape reported in 2016, revenue in the period came solely from a software licence and services agreement between Kape and Playtech Software pursuant to the terms of which Kape has granted to Playtech Software a licence to use certain software modules for Playtech Software's licensees' branded casino software. The agreement expired on 18 September 2017. Following the expiration of the licence and services agreement, no further revenue is expected to be generated from this segment and as such it is expected this will be the last time we report it.

1 Adjusted EBITDA is a company specific measure which is calculated as operating loss before depreciation, amortisation, exceptional and non-recurring costs, employee share-based payment charges and impairment of intangible assets which are considered to be one-off and non-recurring in nature as set out in note 6. The Directors believe that this provides a better understanding of the underlying trading performance of the business.

Adjusted EBITDA

Adjusted EBITDA for the year to 31 December 2017 was $8.3 million (2016: $6.4 million). Adjusted EBITDA is a non-GAAP company specific measure which is considered to be a key performance indicator for the Group's financial performance. It excludes share-based payment charges and expenses which are considered to be one-off and non-recurring in nature and are excluded from the following analysis:

	2017 $'000	2016 $'000
Revenue	66,383	56,532
Cost of sales	(4,572)	(2,360)
Direct sales and marketing costs	(37,764)	(34,917)
Segment result	24,047	19,255
Indirect sales and marketing costs	(6,207)	(4,265)
Research and development costs	(696)	(1,299)
Management, general and administrative cost	(8,883)	(7,278)
Adjusted EBITDA	8,261	6,413

Operating loss

A reconciliation of Adjusted EBITDA to operating loss is provided as follows:

	2017 $'000	2016 $'000
Adjusted EBITDA	8,261	6,413
Employee share-based payment charge	(340)	(716)
Charge for repurchase of employee options	(3,176)	–
Exceptional and non-recurring costs	(899)	(862)
Depreciation and amortisation	(6,445)	(9,884)
Impairment of intangible assets	–	(4,683)
Operating loss	(2,599)	(9,732)

Exceptional and non-recurring costs for the full year 2017 comprised $0.3 million of acquisition bonuses to employees, other non-recurring staff costs of $0.1 million, professional services related to business combination of $0.3 million and a $0.2 million expense from the repurchase of the founder of CyberGhost's share options on 20 November 2017. The charge for repurchase of employee options of $3.2 million is following the acceleration of the repurchased share options.

Loss before tax

Loss before tax has decreased to $2.9 million compared to $10.0 million in 2016.

Loss after tax

Loss after tax was $3.4 million (2016: $10.7 million). The tax charge derives mainly from Group subsidiaries' residual profits. The Group continues to recognise a deferred tax asset of $0.1m (2016: $0.2m) in respect of tax losses accumulated in previous years.

Cash flow

	2017 $'000	2016 $'000
Cash flow from operations	6,533	5,922
Exceptional and non-recurring payments	1,108	1,951
Adjusted cash flow from operations	7,641	7,873
% of Adjusted EBITDA	92%	123%

Cash flow from operations was strong at $6.5 million (2016: $5.9 million). Adjusted cash flows from operations after adding back payments that are one-off in nature and deferred payment for past acquisition that was treated as a remuneration expense in previous years, was $7.6 million (2016: $7.9 million). This represents a cash conversion of 92% of Adjusted EBITDA (2016: 123%).

Tax paid net of refunds in the period was $0.1 million (2016: $0.9 million).

Cash spent in the period on capital expenditure of $2 million (2016: $0.8 million) mainly comprises of capitalised development costs and purchase of fixed assets. Net cash paid for acquisitions in the period totalled $5.3 million (2016: $1.4 million), out of which the Company paid $5.7 million in relation to the CyberGhost acquisition and $0.4 million net inflow related to the acquisition of an additional 33.3% in Clearvelvet and the consolidation of its cash balance in April 2017. As a result, net cash outflow from investing activities was $7.4 million (2016: $3.1 million). In addition, $0.2 million paid in the period for past acquisitions is included in the operational cash flow as it is treated as remuneration as required by IFRS (2016: $1.1 million)

In November 2017, the Company repurchased 3.8 million share options from CyberGhost's founder for a total consideration of $3.8 million, out of which $1.9 million was paid in the year and the rest will be paid in eight equal quarterly instalments.

Financial position

At 31 December 2017, the Company had cash of $69.5 million (31 December 2016: $72.1 million), net assets of $79.4 million (31 December 2016: $80.5 million) and is debt free. At 31 December 2017, trade receivables were $8.5 million (31 December 2016: $5.6 million) which represented 42 days outstanding, (31 December 2016: 44 days).

Early adoption of IFRS 15

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15"), a new standard related to revenue recognition. Under the standard, revenue is recognised when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. The Company has adopted IFRS 15 using the cumulative effect method applied to those contracts which were not completed as of 1 January 2017.

Revenue recognition relating to most of our products and services remains substantially unchanged and, in consequence, the impact of the new standard on our opening balances (as at 1 January 2017) was immaterial.

On an ongoing basis, the most significant impact of the standard relates to our accounting for user acquisition costs associated with subscription sales of CyberGhost and auto renewal sales of Reimage which commenced in 2017. These costs, which relate to sales and marketing, are considered incremental in obtaining the contract, and therefore capitalised and amortised over the expected customer relationship period under the new standard. The adoption of the new standard had no impact to cash from or used in operating, financing or investing on our consolidated cash flow statements.

The impact of the adoption on our consolidated income statement and balance sheet for the period ended 31 December 2017 was as follows:

Income statement

	2017 as reported under IFRS 15 $'000	2017 according to previous policy under IAS 18 $'000	Effect of the application of IFRS 15 $'000
Selling and marketing expenses	(44,117)	(45,508)	1,391
Operation loss	(2,599)	(3,990)	1,391
Adjusted EBITDA	8,261	6,870	1,391
Total comprehensive loss for the year	(2,503)	(3,894)	1,391
Basic earnings per share	(2.4)	(3.4)	1
Diluted earnings per share	(2.4)	(3.4)	1

Balance sheet

	Balance at 31 December 2017 as reported under IFRS 15 $'000	Balance at 31 December 2017 under IAS 18 $'000	Effect of adjustment of IFRS 15 $'000
Assets recognised for costs incurred to obtain a contract			
Non-current assets – contract assets	347	–	347
Current assets – contract assets	1,044	–	1,044
	1,391	–	1,391

Dividends

Following our strong cash flow from operations and cash balance as of 31 December 2017, the Board has recommended a special dividend of 4.93 US$ cents per share (2016: nil) being a total payout of $7 million.

Moran Laufer
Chief Financial Officer
12 March 2018

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties that could have a material impact on the Group's long-term performance and could cause results to differ materially from expected and historical results. The risks to which the business is exposed are set out below.

Risks	Background	Mitigating controls
Regulatory, legislative or self-regulatory developments regarding internet privacy matters could adversely affect the Group's ability to conduct its business.	International regulatory bodies are increasingly focused on online privacy issues and user data protection. In particular, GDPR was approved by the European Union (EU) and takes effect from May 2018. It intends to strengthen and unify data protection for all individuals within the EU. It also addresses the export of personal data outside the EU. The GDPR aims primarily to give control back to citizens and residents over their personal data and to simplify the regulatory environment for international business by unifying the regulation within the EU.	• All the information that the Group obtains regarding users and their profiling is information that may correspond to a particular person, account or profile, but does not identify, allow contact or enable Kape to locate the person to whom such information pertains. As a consequence, the Group is not regulated by any regulator or subject to any regulatory approval for its day-to-day operations. • Whilst not externally regulated, the Group adheres to a strict set of controls with its partners. Partners, developers, publishers and advertisers are required to comply with these contractually imposed controls, which have been jointly created by the Group and its legal advisers.
Large and established internet, Antivirus and technology companies may be able to significantly impair the Group's ability to operate.	Large and established internet, Antivirus and technology companies such as Symantec Corporation, Amazon.com, Inc. ("Amazon"), AOL, Inc., Apple, eBay Inc., Facebook, Inc. ("Facebook"), Google and Microsoft, may have the power to significantly change the very nature of the app-distribution and internet display advertising marketplace. These changes could materially disadvantage the Group. For example, Amazon, Apple, Facebook, Google and Microsoft have substantial resources and control a significant share of widely adopted industry platforms such as web browsers, mobile operating systems and advertising exchanges and networks. Changes to their web browsers, mobile operating systems, platforms, exchanges, networks or other products or services could be significantly harmful to the Group's business. Such companies could also seek to replicate all or parts of the Group's business.	• The Group actively monitors the developments of the large and established internet, Antivirus and technology companies to identify any threats that may impair the Group's ability to operate.

Risks	Background	Mitigating controls
If the Group fails to innovate and respond effectively to rapidly changing technology, the Group's solution may become less competitive or obsolete.	To remain competitive, the Group's future success will depend on its ability to continuously enhance and improve its solutions to meet client needs, add functionality to its product portfolio and address technological advancements.	• The Group invests in research and development resources to ensure that the Group's technology platforms are continually enhanced through evolution and innovation. • The Group also invests in acquisitions to expand its technology platforms and adapt to the rapidly changing technology environment.
Failures in the Group's IT systems and infrastructure supporting its solution could significantly disrupt its operations and cause it to lose clients.	In addition to the optimal performance of the Kape Engine, the Group's business relies on the continued and uninterrupted performance of its software and hardware infrastructures. Sustained or repeated system failures of its software and hardware infrastructures, which interrupt its ability to deliver its software products and services or advertisements quickly and accurately, could significantly reduce the attractiveness of its solution to advertiser clients and publishers, reduce its revenue and affect its reputation.	• The Group outsources hosting services, holding minimal server infrastructure itself. This allows the Group to flex and grow its operations efficiently. • Kape uses third party content distribution network services in order to offload traffic served directly from its own infrastructure and minimise network latency.
The Group is a multinational organisation faced with increasingly complex tax issues in many jurisdictions, and it could be obliged to pay additional taxes in various jurisdictions as a result of new taxes, laws or interpretation, including sales taxes, which may negatively affect its business.	As a multinational organisation, operating in multiple jurisdictions such as the Isle of Man, Cyprus, Israel, Romania and the United Kingdom, the Group may be subject to taxation in several jurisdictions around the world with increasingly complex tax laws, the application of which can be uncertain. The amount of taxes it pays in these jurisdictions could increase substantially as a result of changes in the applicable tax principles, including increased tax rates, new tax laws or revised interpretations of existing tax laws and precedents, which could have a material adverse effect on its liquidity and results of operations.	• The Group uses advisers to review its tax position and ensure compliance with local tax legislation.

DON ELGIE
NON-EXECUTIVE CHAIRMAN

Don has many years' experience in marketing services including developing companies organically and by acquisition. Don retired as Group CEO of Creston plc, which was listed on the Main Market of the London Stock Exchange, at the end of March 2014. He founded Creston as a digitally focused communications and insight group in 2001 and built it into an international group which generated £75m revenue, £12m EBITDA and employed over 800 people as at March 2014. He is Chairman of Kape's Nominations Committee. He is also Non-Executive Chairman of The Marketing Group plc, which is listed on the Nasdaq First North market in Sweden.

IDO ERLICHMAN
CHIEF EXECUTIVE OFFICER

Ido joined Kape plc in May 2016 as Group Chief Executive Officer. Ido has more than nine years' experience in the technology sector garnered through roles in private equity, consulting and finance. Prior to joining Kape, Ido was acting Joint Chief Executive Officer of VisualDNA (which was acquired by The Nielsen Company), a leading psychographic data business, where he led its geographic expansion and oversaw significant EBITDA growth. Prior to VisualDNA, Ido worked as a Senior Associate within KPMG's private equity deal advisory practice in London and as a Senior Manager within KPMG's Transaction Services practice focusing on technology deals in Israel and with the Israeli Ministry of Finance. Ido is the author of the bestselling book 'Battle of Strategies', published in Israel by Yediot Books. Ido is a Certified Public Accountant, having graduated magna cum laude in Accounting and Economics from The Hebrew University of Jerusalem. He also obtained his Masters degree in Law from Bar-Ilan University, and has received an MBA from the University of Cambridge's Judge Business School.

MORAN LAUFER
CHIEF FINANCIAL OFFICER

Moran joined Kape as Group Financial Controller in 2012. He was a key member of the finance team that successfully supported the Group's admission to AIM in September 2014. Prior to joining Kape, Moran was a Divisional Controller at SafeCharge International Ltd (AIM: SCH), a global provider of payments services, technologies and risk management solutions for online and mobile businesses. Previously Moran worked for Ernst & Young as a senior auditor of London Stock Exchange and NASDAQ traded companies primarily focused on the technology sector. Moran is a Certified Public Accountant, who graduated in Accounting and Economics and received an MBA from Tel Aviv University.

DAVID COTTERELL
NON-EXECUTIVE DIRECTOR

David has over 30 years' experience in the information technology software and service sector. He has held senior management roles with firms such as ACT Financial Systems, DST, Advent and SQS Group Plc and has led and successfully integrated many trade sales of technology companies. Between 2006 and 2011 David served as the CEO of UKIISA Region (UK, Ireland, South Africa and India) and as Board Director at SQS Group plc (LSE:SQS). David is currently Non-Executive Chairman of SyQic plc. Additionally, David is Chairman of IT services company Qualitest UK. David is Kape Group's Senior Independent Director and also Chairman of the Company's Remuneration Committee.

MARTIN BLAIR
NON-EXECUTIVE DIRECTOR

Prior to joining the Board of Kape, Martin acted as CFO of Pilat Media Global plc, a company which previously traded on both AIM and the Tel Aviv Stock Exchange and developed, marketed and supported new generation business management software solutions for content and service providers in the media industry. Martin joined Pilat Media in 2001, ahead of its admission to AIM in 2002. Pilat Media was acquired by SintecMedia Ltd for £63.3 million in April 2014. Martin qualified as a chartered accountant with Ernst & Young in 1982 and between 1983 and 1986 worked for PwC. Martin is Chairman of Kape's Audit Committee. Martin is also currently a Non-Executive Director and Chairman of the Audit Committees at both The Marketing Group and Green Biologics Ltd.

The Board of Directors of the Company ("the Board") are responsible for the Group's system of corporate governance.

Overview
The current policies and procedures as adopted by the Group are set out below.

Role of the Board
The Board is responsible for the overall strategy and direction of the Group. It provides robust leadership of the Company within a framework of effective controls which enables risk to be assessed and managed. The Board, in setting the Company's aims, ensures that the necessary financial and human resources are in place to meet its objectives. It regularly reviews management performance and upholds the Company's values and standards so that its obligations to shareholders and others are understood and met.

The Board is supplied with information in a quality form and in a timely manner to enable it to discharge its duties. The Board also reviews arrangements under which employees can raise concerns in confidence about possible improprieties in matters of financial reporting or other areas.

Division of responsibilities
During 2017, the Chairman, Donald (Don) Elgie had a clear and distinct responsibility for running the Board whilst the executive responsibility for running the Company's business was delegated to the Chief Executive Officer, Ido Erlichman.

Moran Laufer was appointed to the Board on 6 February 2017 having been appointed to the position of Chief Financial Officer on 27 October 2016.

As at 31 December 2017, the Board comprised five Directors, three of whom were Non-Executive Directors.

The Non-Executive Directors normally do not have any day-to-day involvement in the running of the business but are responsible for scrutinising the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance. All Board members are considered to be able to allocate sufficient time to the Company to discharge their responsibilities as Directors effectively.

The Board meets at regular scheduled intervals and follows a formal agenda; it also meets as and when required. No one individual has unfettered powers of decision. The Directors may take independent professional advice at the Group's expense.

Board Committees
The Group has an Audit Committee, a Nominations Committee, and a Remuneration Committee, each consisting of three Non-Executive Directors. Each Committee has written terms of delegated responsibilities which will be available for review at the end of the 2018 Annual General Meeting and are available for review in the Investor Relations section of the Group's website www.kape.com. The Board and its Committees are considered to have an appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.

Remuneration Committee
The Remuneration Committee is comprised of David Cotterell (Chair of the Committee), Don Elgie and Martin Blair, all of whom are Non-Executive Directors. It is responsible for making recommendations to the Board on remuneration policy as applied to the Company's Executive Directors. The Remuneration Committee also considers grants of options under the Company's share option schemes. The policy of the Remuneration Committee is to grant share options to employees as part of a remuneration package to motivate them to contribute to the growth of the Group over the medium to long term.

The Chief Executive may, at the Remuneration Committee's invitation, attend meetings except where his own remuneration is discussed. The Remuneration Committee met twice during the past financial year. The Remuneration Committee's terms of reference, which can be found on the Company's website www.kape.com, are reviewed on an annual basis and updated as required.

The Remuneration Committee Report, which includes details of Directors' remuneration, pension entitlements and Director's interests, together with information on service contracts, is set out on pages 18 to 19.

Audit Committee

The Audit Committee is comprised of Martin Blair (Chair of the Committee), David Cotterell and Don Elgie, all of whom are Non-Executive Directors.

The Committee meets at least twice a year and at other times as agreed between the members of the Committee. Executive Directors and the Group's auditors may be invited to attend all or part of any meetings. The Committee also meets with the Group's external auditor without the presence of the Executive Directors.

The Committee's terms of reference, which can be found on the Company's website www.kape.com, are reviewed on an annual basis and updated as required.

Risk management and internal controls

During the year, the Audit Committee has reviewed the scope and effectiveness of systems to identify and address financial and non-financial risks. The review identified the key risks, risk control measures and the implementation status of the risk control measures. The report was presented to the Committee by the Chief Financial Officer.

Audit of the Group's Annual Report Financial Statements

In advance of the audit of the Group's Annual Report Financial Statements the Audit Committee reviewed the plans as presented by the Group's external auditor, BDO LLP. The plan set out the proposed scope of work, audit approach, materiality and identified areas of audit risk.

The Audit Committee also reviewed the Annual Report and Financial Statements along with the audit findings report presented by BDO LLP.

Auditor independence

The Audit Committee monitors the independence of the Group's external auditor. During the year BDO LLP provided the Group with the following non-audit services:

- Taxation compliance services; and
- Taxation advisory services.

The Audit Committee considered the threats to the independence of BDO LLP created by the provision of the non-audit services and concluded that sufficient safeguards were in place.

BDO was appointed as auditor of the Group for the year ended 31 December 2013. The Audit Committee will keep under review, in consultation with major shareholders, the decision as to whether to conduct a tender in respect of the audit in line with the recommendations of the Financial Reporting Council.

Nominations Committee

The Nominations Committee is comprised of Don Elgie (Chair of the Committee), Martin Blair and David Cotterell, all of whom are independent Non-Executive Directors. The Committee meets when appropriate and considers the composition of the Board, retirements and appointments of additional and replacement Directors and makes appropriate recommendations to the Board. The objective of the Committee is to review the composition of the Board and to plan for its progressive refreshing, with regard to balance and structure. The Committee is responsible for:

- Reviewing the structure of the Board;
- Evaluating the balance of skills, knowledge, experience and diversity of the Board;
- Advising the Board on any areas where further recruitment may be appropriate; and
- Succession planning for key executives at Board level and below.

Where necessary and appropriate, recruitment consultants are used to assist the Committee in delivering its objectives and responsibilities. The Committee leads the process for the identification and selection of new Directors and makes recommendations to the Board in respect of such appointments. The Committee also makes recommendations to the Board on membership of its Committees. The Committee terms of reference, which can be found on the Company's website www.kape.com, are reviewed on an annual basis and updated as required.

REMUNERATION COMMITTEE REPORT (UNAUDITED)

The Remuneration Committee (for the purpose of the Remuneration Committee report, "the Committee") is comprised of David Cotterell (Chair of the Committee), Don Elgie and Martin Blair, all of whom are Non-Executive Directors.

The Directors (other than alternate Directors) shall be entitled to receive by way of fees for their services as Directors (in addition to fees paid for employment or executive services) such sum as the Board may from time to time determine, provided that such amount shall not exceed in aggregate £500,000 per annum or such greater sum as the Company in general meeting shall from time to time determine by ordinary resolution. Any fees payable shall be distinct from any salary, remuneration or other amounts payable to a Director.

Each Director is entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by him in or about the performance of his duties as a Director, including any expenses incurred in attending meetings of the Board or any Committee of the Board or general meetings or separate meetings of the holders of any class of shares or of debentures of the Company.

Directors emoluments

Directors' emoluments for the 2017 financial year are set in Pounds Sterling. These are set out in the tables below along with the US Dollar equivalent cost to the Company:

Name	Base Salary/Fees GBP£	Benefits GBP£	Pension GBP£	Bonus GBP£	Total GBP£
Ido Erlichman	300,000	41,000	9,000	200,000	550,000
Don Elgie	80,000	–	–	–	80,000
David Cotterell	50,000	–	–	–	50,000
Martin Blair	50,000	–	–	–	50,000
Moran Laufer	97,030	33,004	–	60,000	200,034

The US Dollar equivalent cost to the Company has been calculated using a USD/GBP rate of 1.29

Name	Base Salary/Fees $	Benefits $	Pension $	Bonus $	Total $
Ido Erlichman	387,000	52,890	11,610	258,000	709,500
Don Elgie	103,200	–	–	–	103,200
David Cotterell	64,500	–	–	–	64,500
Martin Blair	64,500	–	–	–	64,500
Moran Laufer	125,168	42,525	–	77,400	258,044

The beneficial interests of the Directors who held office at 31 December 2017, together with that of persons connected with the Directors, in the share capital of the Company were as follows:

Directors' interests in shares

	2017		2016	
Name	Percentage of issued share capital	Number of ordinary shares	Percentage of issued share capital	Number of ordinary shares
Ido Erlichman	**0.07%**	**100,000**	0.07%	100,000
Don Elgie	**0.07%**	**97,087**	0.07%	97,087
Martin Blair	**0.01%**	**19,417**	0.01%	19,417
David Cotterell	**0.03%**	**48,544**	0.03%	48,544
Moran Laufer	**0.04%**	**50,000**	–	–

Directors’ interests in share options

Name	Number of ordinary shares under option at 31 December 2016	Date of grant	Exercise price	Number of ordinary shares under option at 31 December 2017
Ido Erlichman[1]	2,000,000	1 June 2016	£0.275	2,000,000
Moran Laufer[1]	241,931	29 May 2014	£0.380	241,931
	50,000	5 January 2016	£0.555	50,000
	634,946	26 October 2016	£0.365	634,946

1. Vesting schedule: 25% one year from date of grant and then in 12 equal quarterly instalments thereafter.

Annual bonus

The bonuses for the Executive Directors for 2018 will be based on Adjusted EBITDA and non-financial and strategic objectives. The level of bonus payable by reference to the financial performance of the Company will be determined on a sliding scale based on the Company’s budget for the forthcoming financial year.

Service contracts

Executive Directors

The service agreements of the Executive Directors are for an indefinite term and provide for formal notice of six months for the Chief Executive Director and three months for the Chief Financial Officer to be served to terminate the agreement, either by the Company or by the Director. In addition to their annual salaries, the Executive Directors are entitled to annual pension contributions of 3 per cent as well as other benefits commensurate with their positions including health-related benefits.

Non-Executive Directors

Fees for Non-Executive Directors are set with reference to time commitment, the number of Committees chaired and relevant external market benchmarks.

The Non-Executive Directors each have specific letters of appointment, rather than service contracts. Non-Executive Directors are appointed for an initial term of three years and under normal circumstances would be expected to serve for additional three-year terms, up to a maximum of nine years, subject to satisfactory performance and re-election at the Annual General Meeting as required.

David Cotterell
Chairman, Remuneration Committee
12 March 2018

DIRECTORS' REPORT

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and independent auditor's report for the year ended 31 December 2017. The Corporate Governance Statement set out on pages 16 to 17 forms part of this report.

The Company's full name is Kape Technologies plc, domiciled in the Isle of Man with company number 011402V. Kape Technologies plc is a public listed company, listed on the AIM market of the London Stock Exchange ("AIM").

Principal activity

Kape develops and distributes a variety of digital products in the online security space. The Company utilises its proprietary digital distribution technology to optimise its reach and distribute its software products to consumers. The Company offers products which provide online security, privacy and optimisation tools for the consumer system. A detailed overview of the Group's activities is set out on pages 4 to 7.

Review of business and future developments

Details of the Group's performance during the year under review and expected future developments are set out in the Strategic Report on pages 1 to 13. A description of the principal risks and uncertainties facing the Group is set out on pages 12 to 13.

Dividends

The Board has declared the payment of a special dividend of 4.93 US$ cents per share, being a total payout of $7 million (2016: nil), which will be paid to shareholders on the register as at 25 May 2018.

Directors

The Directors who served during the period were as follows:

Ido Erlichman	Active
Donald (Don) Elgie	Active
David Cotterell	Active
Martin Blair	Active
Moran Laufer	Active, appointed 06 February 2017

Re-election of Directors

The articles of association require that at each Annual General Meeting one-third of the Directors (excluding any Director who has been appointed by the Board since the previous Annual General Meeting) or, if their number is not an integral multiple of three, the number nearest to one-third but not exceeding one-third shall retire from office (but so that if there are fewer than three Directors who are subject to retirement by rotation one shall retire).

Any Director who is not required to retire by rotation but who has been in office for three years or more since his appointment or his last reappointment or who would have held office at not less than three consecutive Annual General Meetings of the Company without retiring shall retire from office.

Appointment of a Director

The articles of association require that any Director appointed by the Board shall, unless appointed at such meeting, hold office only until the dissolution of the Annual General Meeting of the Company next following such appointment.

Directors' responsibility statement

The statement of Directors' responsibility is set out on page 22.

Directors' indemnities

The Directors have been granted an indemnity from the Company to the extent permitted by law in respect of liabilities incurred as a result of their office which remains in force at the date of this report.

Employee policies

At 31 December 2017, the Group employed 128 people, (31 December 2016: 74 people). The Group is committed to attracting and retaining personnel with the requisite technical skills and experience to implement its growth strategy and maintain its position in the competitive industry in which it operates. Kape therefore places significant emphasis on ensuring that it has a strong recruitment team as well as appropriate remuneration and bonus policies which are set by reference to appropriate objectives and include share-based incentive schemes, details of which are set out in note 18 to the financial statements.

Financial instruments

The Group does not currently use derivative financial instruments. A summary of the Group's financial instruments, changes in share capital and related disclosures are set out in notes 15 and 17 to the financial statements. The Group has no material exposure to price, liquidity, or cash flow risk that would impact its objectives.

Capital structure
Under the IOM Companies Act, the Company is not required to have an authorised share capital. The ordinary shares in issue at 31 December 2017 have been created pursuant to the BVI Companies Act and the articles of association of the Company in place prior to the re-domiciliation of the Company from the BVI to the IOM on 13 August 2014 and are ordinary shares of USD 0.0001 par value.

Details of the issued share capital as at 31 December 2017 of 148,496,073 ordinary shares of USD 0.0001 par value, together with details of the movements in the Company's issued share capital during the year are shown in note 15 to the financial statements. The Company has one class of ordinary shares, which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the articles of association and prevailing legislation. Save as provided by the terms of certain lock-in agreements entered into between the Company, the Directors and certain shareholders, the Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

As at 31 December 2017 the Company held 6,644,738 shares in treasury and no shares in the capital of the Company are held by or on behalf of the Company or by any of the Company's subsidiaries.

Details of employee share schemes are set out in note 18 to the financial statements.

Related party transactions
Details of all related party transactions are set out in note 22 to the financial statements.

Research and development
The Group maintains an integrated global research and development team which has a staff of 44 (2016: 14). In the opinion of the Directors, continuity of investment in this area is essential for the maintenance of the Group's market position and for future growth. The amount of research and development costs capitalised in the year was $1,432,000 (2016: $744,000).

Going concern
The Directors, having considered the Group's resources financially and the associated risks with doing business in the current economic climate, believe the Group is capable of successfully managing these risks. The Board has reviewed the cash flow forecast and business plan as provided by management which includes the rate of revenue growth, margins and cost control. As such, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Annual General Meeting
The Annual General Meeting for 2018 will be held at 12 noon on Thursday, 17 May 2018. The notice convening the Annual General Meeting for this year, and an explanation of the items of non-routine business, are set out in the circular that accompanies the Annual Report.

Auditor
A resolution to reappoint BDO LLP as the Company's auditor will be proposed at the 2018 Annual General Meeting.

Each of the persons who are Directors at the date of approval of this Annual Report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- The Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Signed on behalf of the Board by:

Don Elgie
Non-Executive Chairman
12 March 2018

DIRECTORS' RESPONSIBILITY STATEMENT

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

Isle of Man company law does not require the Directors to prepare financial statements for each financial year, however the Group is required to do so to satisfy the requirements of the AIM Rules for Companies. Under company law, when preparing the financial statements, the Directors are required to prepare the Group financial statements in accordance with an appropriate set of generally accepted accounting principles or practice. The Directors have elected to use International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the Directors must not approve the accounts 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 these financial statements, International Accounting Standard 1 (revised) requires that directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that correctly explain the transactions of the Company, enable the financial position of the Company to be determined with reasonable accuracy at any time and allow financial statements to be prepared. 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. The Directors' responsibility also extends to the continued integrity of the financial statements contained therein.

Signed on behalf of the Board by:

Don Elgie
Non-Executive Chairman
12 March 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KAPE TECHNOLOGIES PLC

Opinion

We have audited the financial statements of Kape Technologies Plc for the year ended 31 December 2017 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as applied in accordance with the provisions of the Isle of Man Companies Act 2006 and any other applicable laws and regulations.

In our opinion:

- the financial statements give a true and fair view of the state of the group's affairs as at 31 December 2017 and of the group's loss for the year then ended; and
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Mitigating controls
Revenue recognition and the transition to IFRS 15 Revenue recognition has historically been applied in accordance with IAS 18. However, the group have elected to early adopt IFRS 15 – Revenue from Contracts with Customers effective from 1 January 2017. The new revenue standard requires significant consideration as to the adoption of the new "5 step model" and as such, significant emphasis has been placed on this transition throughout the audit, resulting in the recognition of this key audit matter. The group has a number of revenue streams for which the accounting must be individually considered. International Standards on Auditing note that there is a presumed significant audit risk arising from inappropriate or incorrect recognition of revenue unless conditions exist that permit the rebuttal of that risk. Due to the different nature of agreements entered into by the group, and the fact that revenue is recognised both point in time and over a period of time, there is a key risk of material misstatement arising from both the recognition of revenue around the year end (cut-off) and the revenue recognition policy itself, as detailed in note 2 to these financial statements. Noting the above, including revenue streams where an agency presentation is adopted, as well as a new revenue stream in respect of an acquired entity in the year, we feel it is inappropriate to rebut the presumed risk.	We assessed whether the revenue recognition policies adopted by the Group comply with IFRS as adopted by the European Union and Industry standard. The relevant IFRS is International Financial Reporting Standard 15 Revenue from Contracts with Customers. With the exception of the CyberGhost revenue stream, we tested revenue through substantive procedures, including confirmation of cash receipts over material revenue streams. In respect of the newly acquired subsidiary CyberGhost, we performed cut-off procedures including recalculations around the year-end in order to g et comfort over subscription revenues. We have further reviewed the requirements of the IFRS 15 transition and reviewed the assessment of expected impacts against the disclosure adjustments proposed by the group. Alongside discussions held with management, our work involved the audit of supporting documentation through to source data for all IFRS 15 adjustments, for which the most significant impact relates to the capitalisation of incremental customer acquisition costs. By critically challenging the group's proposed adoption of the new revenue standard we have been able to assess the reasonableness of this adoption.

Key audit matter	Mitigating controls
Business combinations See accounting policy in note 2, and the intangibles assets note (note 10) and the business combinations note (note 21) on pages 54 to 56. The Group completed the following principal acquisitions in the year: • On 1 April 2017, the Company increased its holding in Clearvelvet Trading Limited to 50.01% by acquiring an additional 33.34% of its issued share capital. • On 14 March 2017, the Group acquired 100% of the share capital of CyberGhost S.A. Prior to the acquisition date, CyberGhost acquired Mobile Concept, a software development company based in Germany. There are risks present as a result of management's requirement to make significant judgements in assessing the fair values of consideration including contingent consideration (whether arising on acquisitions made in the current year or previous years) and of the assets and liabilities acquired. Management have engaged external valuations experts to undertake the purchase price allocation exercise required. We focused on this area because the fair value adjustments, which included the creation of intangible assets and associated deferred tax liabilities, were judgmental in nature and also material. The two acquisitions resulted in the group holding, on consolidation, goodwill and intangible assets of $5.69m and $1.829m respectively. Goodwill should be allocated to each of the groups cash generating units ("CGU's"). Further, an annual impairment review is required by management to ensure the level of goodwill and intangibles are supported by the performance and position of the underlying group where impairment indicators exist. Given the judgement involved surrounding the inputs for the impairment review, a risk arises with respect to the recoverable amount of goodwill and intangibles.	We challenged the assumptions underpinning the significant judgements and estimates used by management in the assessment of the fair values of the assets and liabilities acquired and consideration paid including; underlying cash flow projections, royalty rates, discount rates applied and the long term growth rates. Our testing focused on both material and more judgmental fair value adjustments that were recorded. Particular adjustments we tested were: Intangible assets – intangible assets in CyberGhost and Clearvelvet of $1.829m and $204,000 respectively were valued, representing customer relationships, brand and domain names and technology. The directors obtained external valuations for the acquired intangible assets. Utilising our own valuations expertise, we evaluated the valuation methodologies used for each type of asset and satisfied ourselves that the methodology was appropriate and consistent with market practice. We also examined the key assumptions used as inputs to the valuation models to assess whether these were consistent with our understanding of the businesses acquired, their historical performance and the markets in which they operate. These assumptions included revenue and profit forecasts, discount rates, customer attrition rates, technology obsolescence rates and royalty rates. We found that the key valuation assumptions were within our expected range and that the valuation methodologies applied were appropriate. We challenged management's assessment of the fair value of contingent consideration in respect of acquisitions made in the current year and previous periods, including principally the level of expected profitability over the forecast period. In accordance with accounting standards, the creation of these intangible assets resulted in the creation of deferred tax liabilities on acquisition of $366,000. We examined and satisfied ourselves with the methodology and tax rates used to calculate these liabilities. This involved reference to the tax jurisdictions in which the group operates, levels of business in those jurisdictions and the manner in which profits are expected to be repatriated and taxed.

Our application of materiality
We determined materiality for the financial statements as a whole to be $646,000 (2016 – $596,000) which represents approximately 1% of revenues (2016 – 1% of revenues). We agreed with the audit committee that we would report to them misstatements identified during our audit above $32,300 (2016 – $29,800).

Revenue has been concluded as the most relevant performance measure to the stakeholders of the group, while also providing a more stable measure year on year when compared to the group loss before tax.

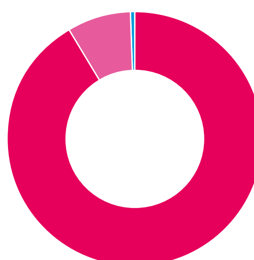
Individual component audits were carried out using component materialities of between 25-50% of overall financial statement materiality.

An overview of the scope of our audit
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the Group audit, we assessed the audit significance of each reporting unit in the Group by reference to both its financial significance and other indicators of audit risk, such as the complexity of operations and the degree of estimation and judgement in the financial results. We also considered the changes to the overall Group as a result of the acquisitions of CyberGhost SA and Clearvelvet Trading Limited and where the key business activities and transactions reside.

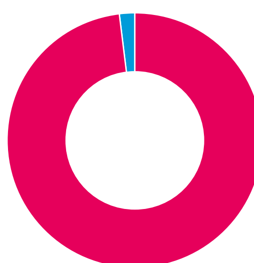
We instructed BDO Romania and BDO Cyprus as component auditors, to perform full scope audits of financial information of the significant components accounted for locally in those territories. BDO Romania performed a full scope audit of CyberGhost SA, and BDO Cyprus performed full scope audits of Reimage Limited, Crossrider Technologies Limited, Blueroad Trading Limited and Frontbase Trading Limited. We visited these locations during the year to ensure we obtained a full understanding of the operational activities and appropriately scoped risks and agreed responses to those risks. We also attended audit clearance meetings in these locations and took an active part in reviewing the work undertaken by our component auditors. We also instructed BDO Israel as component auditors, to perform specific procedures of financial information of the non-significant reporting unit accounted for locally in the territory. This, together with the additional procedures performed at Group level over the acquisition accounting and consolidation process gave us the evidence we needed for our opinion on the financial statements as a whole.

Revenue



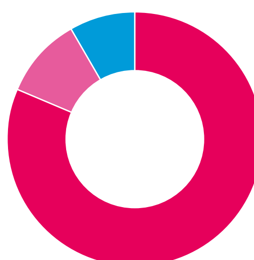
Full scope audit
Specific procedures
Group level procedures

Adjusted EBITDA



Full scope audit
Specific procedures
Group level procedures

Total Assets



Full scope audit
Specific procedures
Group level procedures

Classification of components
We identified two individually significant (determined as those that were greater than 15% revenue) components, which make up 63% of Group revenue.

A further four components have been scoped in as significant to ensure sufficient coverage was obtained across the group. This includes both of the newly acquired entities in the year, CyberGhost SA and Clearvelvet Trading Limited which together make up a further 28% of Group revenue.

Specific procedures have been performed over Definiti Media Limited by BDO Israel. This included reporting over material movements in the year, taxation and related party transactions.

The remaining components not subject to full scope audit or specific procedures have been reviewed for group reporting purposes, using analytic procedures to corroborate the conclusions reached that there are no significant risks of material misstatement of the aggregated financial information of those components.

Summary of audit scope
Based on the above scope we were able to conclude that sufficient and appropriate audit evidence had been obtained as a basis to form our opinion on the group financial statements as a whole.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements
This report is made solely to the company's members, as a body, in accordance with the Isle of Man 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.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Iain Henderson (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
12 March 2018

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 $'000	2016 $'000
Revenue	4	66,383	56,532
Cost of sales		(4,572)	(2,360)
Gross profit		61,811	54,172
Selling and marketing costs	4a	(44,117)	(39,915)
Research and development costs		(1,016)	(1,661)
Management, general and administrative costs		(12,832)	(7,761)
Depreciation and amortisation	10,11	(6,445)	(9,884)
Impairment of intangible assets	10	–	(4,683)
Total operating costs		(64,410)	(63,904)
Operating loss	6	(2,599)	(9,732)
Adjusted EBITDA		8,261	6,413
Employee share-based payment charge	18	(340)	(716)
Charge for repurchase of employee options	18	(3,176)	–
Exceptional and non-recurring costs	6	(899)	(862)
Depreciation and amortisation	10,11	(6,445)	(9,884)
Impairment of intangible assets	10	–	(4,683)
Operating loss		(2,599)	(9,732)
Share of results of equity accounted associates		(40)	47
Finance income		277	4
Finance costs	8	(532)	(332)
Loss before taxation		(2,894)	(10,013)
Tax charge	9	(467)	(665)
Loss for the year		(3,361)	(10,678)
Other comprehensive income:			
Foreign exchange differences on translation of foreign operations		858	–
Total comprehensive loss for the year		(2,503)	(10,678)
Total profit/(loss) for the year attributable to:			
Owners of the parent			
Non-controlling interests		(3,561)	–
Total comprehensive income/(loss) attributable to:		200	–
Owners of the parent		(2,703)	–
Non-controlling interests		200	–
Basic earnings per share (cents)	19	(2.4)	(7.6)
Diluted earnings per share (cents)	19	(2.4)	(7.6)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	2017 $'000	2016 $'000
Non-current assets			
Intangible assets	10	12,350	7,113
Property, plant and equipment	11	815	591
Investments in equity accounted associates	16	–	859
Non-current investments		50	–
Deferred contract costs	4c	406	–
Deferred tax asset	9	97	166
		13,718	8,729
Current assets			
Software licence inventory		65	–
Deferred contract costs	4c	1,386	–
Trade and other receivables	12	11,071	7,950
Cash and cash equivalents	13	69,502	72,064
		82,024	80,014
Total assets		95,742	88,743
Equity			
Share capital		15	14
Additional paid in capital		130,728	130,292
Foreign exchange differences on translation of foreign operations		852	(6)
Retained earnings		(53,200)	(49,747)
Equity attributable to equity holders of the parent		78,395	80,553
Non-controlling interests		977	–
Total equity		79,372	80,553
Non-current liabilities			
Contract liabilities	4b	892	–
Deferred tax liabilities	9	349	691
Deferred consideration	25	993	160
		2,234	851
Current liabilities			
Trade and other payables	14	10,094	7,096
Contract liabilities	4b	3,120	–
Deferred consideration	25	922	243
		14,136	7,339
Total equity and liabilities		95,742	88,743

The financial statements were approved by the Board and authorised for issue on 13 March 2018.

Ido Erlichman
Chief Executive Officer

Moran Laufer
Chief Financial Officer

STRATEGIC REPORT
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital $'000	Additional paid in capital $'000	Foreign exchange differences on translation of foreign operations $'000	Retained earnings $'000	Equity attributable to equity holders of the parent $'000	Non–controlling interests $'000	Total $'000
At 1 January 2016	14	131,287	(6)	(39,785)	91,510	–	91,510
Loss for the year	–	–	–	(10,678)	(10,678)	–	(10,678)
Other comprehensive income:							
Foreign exchange differences on translation of foreign operations	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	(10,678)	(10,678)	–	(10,678)
Transactions with owners:							
Share-based payments	–	–	–	716	716	–	716
Exercise of employee options (note 15)	–	–	–	–	–	–	–
Purchase of own shares (note 15)	–	(995)	–	–	(995)	–	(995)
At 31 December 2016	14	130,292	(6)	(49,747)	80,553	–	80,553
At 1 January 2017	14	130,292	(6)	(49,747)	80,553	–	80,553
Loss for the year	–	–		(3,561)	(3,561)	200	(3,361)
Other comprehensive income:							
Foreign exchange differences on translation of foreign operations	–	–	858	–	858	–	858
Total comprehensive loss for the year	–	–	858	(3,561)	(2,703)	200	(2,503)
Non-controlling interest from acquisition of subsidiary	–	–	–	–	–	777	777
Transactions with owners:							
Share-based payments	–	–	–	3,516	3,516	–	3,516
Exercise of employee options (note 15)	1	436	–	–	437	–	437
Purchase of own share options (note 15)	–	–	–	(3,408)	(3,408)	–	(3,408)
At 31 December 2017	15	130,728	852	(53,200)	78,395	977	79,372

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 $'000	2016 $'000
Cash flow from operating activities			
Loss for the year after taxation		(3,361)	(10,678)
Adjustments for:			
Amortisation of intangible assets	10	6,046	9,421
Impairment of intangible assets	10	–	4,683
Depreciation of property, plant and equipment	11	399	463
Loss on sale of property, plant and equipment	11	101	35
Tax charge	9	467	665
Interest income		(277)	(4)
Interest expenses	8	411	51
Share-based payment charge	18	3,516	716
Share of results of associates	16	40	(47)
Movement in deferred and contingent consideration		(90)	–
Remeasurement gain on equity interest in associate	16	(52)	–
Expense from repurchase of employee share options		208	–
Interest received		277	–
Unrealised foreign exchange differences		240	4
Operating cash flow before movement in working capital		7,925	5,309
Decrease in trade and other receivables		967	8,327
Increase in software licences inventory		(65)	–
Decrease in trade and other payables		(2,113)	(6,625)
Decrease in other current liabilities		(209)	(1,089)
Increase in deferred contract costs		(1,330)	–
Increase in contract liabilities		1,358	–
Cash flow from operations		6,533	5,922
Tax paid net of refunds		(109)	(904)
Cash generated from operations		6,424	5,018
Cash flow from investing activities			
Purchases of property, plant and equipment	11	(540)	(108)
Sale of property, plant and equipment		39	24
Net cash paid on business combination	21	(5,337)	(1,089)
Intangible assets acquired	10	(115)	(850)
Net cash paid on investment in associates	16	–	(350)
Capitalisation of development costs	10	(1,432)	(744)
Net cash used in investing activities		(7,385)	(3,117)
Cash flow from financing activities			
Repurchase of employee share options	5,18	(1,914)	–
Exercise of options by employees	15	437	–
Net payment for purchase of own shares	15	–	(995)
Net cash generated from financing activities		(1,477)	(995)
Net (decrease)/increase in cash and cash equivalents		(2,438)	906
Revaluation of cash due to changes in foreign exchange rates		(124)	(178)
Cash and cash equivalents at beginning of year		72,064	71,336
Cash and cash equivalents at end of year	13	69,502	72,064

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation

The financial information provided is for Kape Technologies plc ("the Company") and its subsidiary undertakings (together the "Group") in respect of the financial years ended 31 December 2017 and 2016. The Company is incorporated in the Isle of Man.

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and interpretations (collectively IFRS) as adopted by the European Union (EU).

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis of accounting in preparing the financial statements.

Adoption of new and revised standards

New standards and amendments to existing standards that have been published and are mandatory for the first time for the financial year beginning 1 January 2017 have been adopted but had no significant impact on the Group.

In May 2014, the IASB issued IFRS 15 Revenue from Contract with Customers ("IFRS 15"), a new standard related to revenue recognition. Under the standard, revenue is recognised when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company has early adopted IFRS 15 for the financial year beginning 1 January 2017, as set out in note 4.

Standards issued but not yet effective

IFRS 16 'Leases' is effective for annual periods beginning on or after 1 January 2019 subject to EU endorsement. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise right of use assets and lease liabilities for all applicable leases. IFRS 16 is not expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements. On adoption of IFRS 16 the Group will recognise within the balance sheet a right of use asset and lease liability for all applicable leases. Within the income statement, rent expense will be replaced by depreciation and interest expense. This will result in a decrease in management, general and administrative costs and an increase in finance costs. The standard will also impact a number of statutory measures such as operating profit and alternative performance measures used by the Group. The full impact of IFRS 16 is currently under review, and the Company will provide an estimate of the full financial effect on the annual results for the year ending at 31 December 2018.

IFRS 9 'Financial instruments' replaces IAS 39 'Financial instruments: Recognition and Measurement' with the exception of macro hedge accounting. The standard is effective for accounting periods beginning on or after 1 January 2018. The standard covers three elements:

- Classification and measurement: changes to a more principle-based approach to classify financial assets as either held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial asset;
- Impairment: moves to an impairment model based on expected credit losses based on a three-stage approach; and
- Hedge accounting: the IFRS 9 hedge accounting requirements are designed to allow hedge accounting to be more closely aligned with the Group's underlying risk management. A new International Accounting Standards Board (IASB) project is in progress to develop an approach to better reflect dynamic risk management in entities' financial statements.

The full impact of IFRS 9 is currently under review, and the Company will provide an estimate of the full financial effect of the interim results for the period ending at 30 June 2018.

2 Significant accounting policies

Basis of consolidation

The Group consolidated financial statements comprise the financial statements of the Parent Company Kape Technologies Plc and the financial statements of the subsidiaries as shown in note 20 of the consolidated financial statements.

The Group has been partly formed from a series of common control transactions.

The financial statements of all the Group companies are prepared using uniform accounting policies. All transactions and balances between Group companies have been eliminated on consolidation.

Business combinations and goodwill

Acquisitions of businesses not under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Contingent consideration that is classified as an asset or a liability is initially recognised at fair value and subsequently at fair value thorough profit and loss in accordance with IAS 39 as appropriate.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

Consideration which is contingent on completion of a service period by an employee of the Group is treated as remuneration and is expensed over the service period.

Common control transactions

Common control transactions have been accounted for using merger accounting.

Under merger accounting, the assets and liabilities of both entities are recorded at book value, not fair value (although adjustments are made to achieve uniform accounting policies), intangible assets and contingent liabilities are recognised only to the extent that they were recognised by the legal acquiree in accordance within applicable IFRS, no goodwill is recognised, any expenses of the combination are written off immediately to the income statement and comparative amounts, if applicable, are restated as if the combination had taken place at the beginning of the earliest accounting period presented.

The result is that the merged groups are treated as if they had been combined throughout the current and comparative accounting periods.

Non-controlling interests

For business combinations, the Group initially recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

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

Foreign currencies

(a) Presentational currency

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which each entity of the Group operates (the "functional currency"). The financial statements are presented in United States Dollars ($000).

2 Significant accounting policies continued

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Exchange rates gains and losses are recognised net within Finance cost.

(c) Consolidation

The functional currency of the Company, and the presentation currency for the consolidated financial statements is United States Dollars. For the purpose of the consolidated financial statements, the assets and liabilities of the Group's foreign operations with a functional currency other than United States Dollars are translated into United States Dollars using exchange rates prevailing on the reporting date. Income and expense items (including comparatives) are translated at the exchange rates at the dates of the transactions. Exchange differences arising, if any, are recognised directly in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Associates

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated statement of financial position at cost. Subsequently associates are accounted for using the equity method, where the Group's share of post-acquisition profits and losses and other comprehensive income is recognised in the consolidated statement of profit and loss and other comprehensive income (except for losses in excess of the Group's investment in the associate unless there is an obligation to make good those losses).

Revenue recognition

Revenue is measured based on the consideration specified in a contract with customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when it transfers control over a product or service to a customer.

Sales from App Distribution

The Company sells products to customers in a B2C model.

- The CyberGhost product is a SaaS product which contains one performance obligation that is satisfied over time. Since the service is being provided evenly across the contract period, revenue is recognised on a straight-line basis. All payments from customers are received upfront. Some of these contracts' term are greater than one year, mostly for 24 and 36 months. The Company determined that the upfront payments are for reasons other than providing a financing benefit to the Company and thus there are no significant financing components in its contracts. The following factors were considered in the analysis:
- The intent of the payment terms that require all payments in advance is to preserve the customers, and to make it economically unlikely for them to stop using the Company's services.

  1. The Company has no need for financing and it charges its customers with an upfront payment, since otherwise it would incur high administration costs related to renewals and collection of payments.
  2. An upfront payment of the entire consideration is in accordance with the typical payment terms in the industry.

- The Reimage PC and DriverAgent products contain three performance obligations: one-time repair, unlimited use of the repair software for one year and technical support for one year. Revenue for performing the one-time repair obligation is recognised at the time of the sale. For the unlimited use package, customers benefit from the use of the repair software and technical support for one year, revenues are recognised in line with the pattern of usage of the products and technical support, which is substantially within the first 30 days of the 12-month period. In the fourth quarter of 2017 the Company started to sell the CyberGhost and Reimage products as a bundle. For software bundles, the Company allocates revenue to each of the performance obligations based on their relative stand-alone selling price. The stand-alone selling prices are determined based on the prices charged to customers who acquire software packages individually.

In respect of the App Distribution CGU, customers are provided with a 30-60 day refund period in which they can receive a full refund. Historical experience and information post year-end allows management to estimate the value of products that will be returned which are not material to the Group and a refund liability has therefore not been recognised.

Sales from advertising
The Company provides advertisers with the ability to manage and monetise publishers' inventory and manage advertisers' campaigns. These services represent one performance obligation and are recognised in the accounting period in which the services are rendered based on clicks/views/impressions as detailed below.

The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Company controls the specified services before the transfer to its customers. In determining this, the Company follows the accounting guidance for principal-agent considerations. This determination involves judgement and is based on an evaluation of the terms of each arrangement. The Company determined that it is the principal in these transactions and therefore revenue is recognised on a gross basis since it is primarily responsible for fulfilling of the services. The Company also bears inventory risk as it pays the majority of publishers according to cost per mille impressions (CPM) but charges the payment from the customer according to cost per acquisition (CPA)/cost per click (CPC)/DCPC/or cost per install (CPI). Stated differently, an impression can be purchased from a publisher with no corresponding sale to an advertiser if the final user does not click on the advertisement delivered. Moreover, the Company has the discretion in establishing the prices.

Sales from Ajillion – Ad-exchange
The Company provides ad-exchange services which allow the Company's partners to seamlessly buy and sell from each other through a real-time bidding process. Revenue is recognised in the accounting period in which the services are rendered.

In this case, the Company determined that it is acting as an agent and therefore revenue is recognised on a net basis. While the Company is primarily responsible for the connectivity services, it does not bear inventory risk nor has discretion in establishing the prices. The customer chooses the inventory to purchase on a real-time basis, the amount spent on the campaign is determined by the customer through a real-time bidding process and the amount earned by the Company is based on a fixed percentage.

Sales from licence of web apps platform
The Company licence its web apps platform to customers on a SaaS basis. The benefits simultaneously provided to and consumed by the customers therefore revenues were recognised on a straight-line basis over the period of the contract.

The following policy was applied before adoption of IFRS 15:

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

(a) Revenue from advertising
The Group generates revenues from its customers' advertising campaigns on fixed bases such as cost per mille impressions ("CPM"), cost-per-acquisition ("CPA"), cost-per-sale ("CPS"), cost-per-lead ("CPL"), cost-per-download ("CPD") and cost-per-install ("CPI"). These revenues are recognised only when the amount of revenue can be measured reliably, it is probable that the economic benefits associated will flow to the Group, the transactions are complete and the related costs can be measured reliably.

(b) Revenue from sale of software tools
Revenue from sales of software tools is recognised at electronic point of sale when payment is identified by the respective credit card payment processor and rights to use the software have been granted.

(c) Presentation of net revenues
Revenues are recognised net when it is identified that the Group is acting as an agent and gross when it is identified that the Group is acting as a principal in accordance with the terms of the arrangement.

Costs to obtain and fulfil a contract
According to IFRS 15, Incremental costs of obtaining a contract are those costs that the entity would not have incurred if the contract had not been obtained (for example, sales commissions). Incremental costs of obtaining a contract with a customer are recognised as assets if they are recoverable. The Company recognises an asset in relation to marketing costs to obtain a contract. The costs include fees paid to marketing partners on behalf of subscription sales of CyberGhost or Reimage to customers referred by the partners. The Company believes that the costs are recoverable as the proceeds from the customer over the expected relationship period exceed the costs to obtain the contract. The asset is amortised on a systematic basis over the expected customer relationship period including expected contract renewals by customers. The expected customer relationship period is an estimation, which is based on historical renewal data.

2 Significant accounting policies continued

In addition, the Company recognises an asset for fulfilment costs that is considered directly attributable in fulfilling a contract. The fulfilment costs comprised of processing fees paid to third party processing service providers. This asset is amortised on a systematic basis over the contract period.

Assets recognised from the costs to obtain or fulfil a contract are subject to impairment testing. An impairment loss should be recognised in profit or loss to the extent that the carrying amount of an asset exceeds:

a. The remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates, less
b. The costs that relate directly to providing those goods or services and that have not been recognised as expenses.

Intangible assets

Amortisation for all classes of intangible assets is included within amortisation and depreciation costs in the income statement.

(a) Externally-acquired intangible assets

Externally-acquired intangible assets comprise intellectual property ("IP"), customer lists, trademarks and internet domains. All such intangible assets are stated at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation of these intangible assets is calculated using the straight-line method over their useful economic lives.

Where intangible assets are acquired as part of a business combination they are recorded initially at their fair value.

The useful economic life of IP, customer lists and trademarks is three to seven years.

Internet domains are generally considered to have an indefinite useful economic life. They are purchased due to the marketability of the related domain name, are not specific to a particular product, brand, market or service and therefore are not expected to diminish in value or use as a function of time.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(b) Internally-generated intangible assets (development costs)

An internally-generated intangible asset arising from the Group's e-business development is recognised only if all of the following conditions are met:

- An asset is created that can be identified (such as software and new processes);
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their estimated useful lives, which is two to three years. Amortisation commences when the asset is available for use.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the asset is derecognised.

(c) Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The Group tests goodwill annually for impairment, or more frequently if there are indicators that goodwill might be impaired.

Intangible assets are tested separately from goodwill only where impairment indicators exist.

Property, plant and equipment
Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the straight-line method so as to write off the cost of each asset to its residual value over its estimated useful life. The annual depreciation rates used are as follows:

- Computer equipment: 2–3 years
- Furniture, fixtures and office equipment: 6–15 years
- Leasehold improvements: 10 years or the term of the lease if shorter
- Cars: 4 years

The assets residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount.

Expenditure for repairs and maintenance of property, plant and equipment is charged to profit or loss in the year in which it is incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of property, plant and equipment and internally-generated intangible assets
Assets that have an indefinite useful life are not subject to depreciation or amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Trade receivables
Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents
For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash at bank and short-term bank deposits.

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

Current and deferred tax
Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax
Current tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date.

Deferred tax
Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is calculated at the tax rates that are expected to apply

2 Significant accounting policies continued

in the period when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the period end date, and is not discounted.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Share-based payments

Kape operates equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for Kape equity instruments (options). The fair value of the options and share awards is recognised as an employee benefit expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest.

At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (par value) and share premium when the options are exercised.

Cancellation or settlement is accounted for as an acceleration of the vesting period, and therefore the amount that otherwise would have been recognised for services received over the remainder of the vesting period is recognised immediately. Repurchase of cancelled or settled share-based compensation plan, is accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at purchase date. Such excess is accounted as expense.

Share capital

Ordinary shares are classified as equity. The difference between the fair value of the consideration received by the Group and the nominal value of the share capital being issued is classified as additional paid in capital.

Critical accounting estimates and judgements

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and judgements that affect the application of policies and reported amounts. 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. Actual results may differ from these estimates.

The following accounting policies cover areas that the Directors consider require estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year:

(a) Capitalisation of development expenses

Research and development costs which create identifiable assets and are expected to generate future economic benefits are capitalised, and the remainder is expensed to the income statement. This requires the Group to perform judgements in apportioning costs to identifiable assets and making judgements about which assets are expected to give rise to future economic benefits.

(b) Presentation of net revenues

The Group makes judgements in assessing whether it has acted as a principal or agent in transactions for selling and acquiring advertising media space, and therefore whether it reports its revenues gross or net respectively. The Group assesses a number of criteria in making these judgements, including the party, who is responsible for price setting and credit risk of the transaction, the losses the Group would suffer for non-delivery of service as well as the perceived and contractual relationship between the media publisher and seller or ad network.

3 Financial risk management

The Group is exposed to interest rate risk, credit risk, liquidity risk, currency risk, and capital risk management arising from the financial instruments it holds (see also note 17). The risk management policies employed by the Group to manage these risks are discussed below:

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group has no material interest-bearing financial instruments and is therefore not exposed to changes in market rates of interest or fair value interest rate risk.

Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The principal credit risk is considered to result from new relationships with customers with which the Group does not have a long working relationship and for which reliable information as to their credit ratings cannot be obtained. In such cases the Group limits the initial credit facility afforded to these customers. Cash balances are held with high credit quality financial institutions and the Group has policies to limit the amount of credit exposure to any financial institution or customer.

Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Group has procedures with the object of minimising such losses such as by having available an adequate amount of committed credit facilities from the ultimate shareholder and related parties, and maintaining sufficient cash and other highly liquid current assets.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's measurement currency. The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Israeli New Shekel, British Pound, Euro, Australian Dollar and Romanian Leu. The Group's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly and also avoids engaging in a significant level of transactions in currencies which are considered volatile or exposed to risk of significant fluctuations.

4 Revenue

	2017 $'000	2016 $'000
Revenue from advertising	18,157	18,291
Sale of software licence	48,226	38,241
	66,383	56,532

Revenues from sales of software tools and provision of virtual private network ("VPN") solutions are generated from the App Distribution CGU, while revenues from advertising are generated mainly from the Media CGU.

On January 1, 2017, the Company adopted IFRS 15 using the cumulative effect method applied to those contracts which were not completed as of January 1, 2017. The impact of the new standard on our opening balances was immaterial.

On an ongoing basis, the most significant impact of the standard relates to our accounting for marketing costs of the Reimage and CyberGhost products which commenced as of FY 2017. These costs are considered incremental in obtaining the contract, and therefore capitalised and amortised over the expected customer relationship period under the new standard.

4 Revenue continued

Revenue recognition related to most of our products and services remains substantially unchanged.

(a) Disaggregation of revenue

The following table presents our revenues disaggregated by the timing of revenue recognition in accordance with our reporting segments:

	2017 (USD, in thousands)				2016 (USD, in thousands)			
	App Distribution	Media	Web Apps and License	Total	App Distribution	Media	Web Apps and License	Total
Revenue recognised over a period	6,454	–	2,376	8,830	–	–	4,508	4,508
Revenue recognised at a point in time	41,772	15,781		57,553	38,241	13,783		52,024
Total	**48,226**	**15,781**	**2,376**	**66,383**	**38,241**	**13,783**	**4,508**	**56,532**

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our consolidated income statement and balance sheet for the period ended December 31, 2017 was as follows:

Income statement

	Fiscal year ended 31 December 2017 as reported under IFRS 15 (USD, in thousands)	Fiscal year ended 31 December 2017 under IAS 18 (USD, in thousands)	Effect of adjustment of IFRS 15 (USD, in thousands)
Costs and expenses			
Selling and marketing expenses	(44,117)	(45,508)	1,391
Total operations cost	(64,410)	(65,801)	1,391
Operation loss	(2,599)	(3,990)	1,391
Adjusted EBITDA	8,261	6,870	1,391
Total comprehensive loss for the year	(2,503)	(3,894)	1,391
Basic earnings per share	(2.4)	(3.4)	1
Diluted earnings per share	(2.4)	(3.4)	1

Balance sheet

	Balance at 31 December 2017 as reported under IFRS 15 (USD, in thousands)	Balance at 31 December 2017 under IAS 18 (USD, in thousands)	Effect of adjustment of IFRS 15 (USD, in thousands)
Assets recognised for costs incurred to obtain a contract			
Non-current assets – deferred expenses	347	–	347
Current assets – deferred expenses	1,044	–	1,044
	1,391	–	1,391

The marketing costs to obtain a contract include fees paid to marketing partners on behalf of subscription sales of CyberGhost or Reimage to customers referred by the partners.

(b) Contract liabilities

The Company has recognised the following revenue-related contract liabilities:

	31 December 2017 (USD, in thousands)
Contract liabilities[1]	4,012
Total	4,012

1. The balance is relating to CyberGhost, which was purchased on March 2017.

Significant changes in relation to contract liabilities

The following table shows the significant changes in the current reporting period which relate to carried-forward contract liabilities.

Significant changes in the contract liabilities balances during the period are as follows:	31 December 2017 (USD, in thousands)
Business combination	(2,324)
Revenue recognised that was included in the contract liability balance from business combination	2,181
Increases due to cash received, excluding amounts recognised as revenue during the period	(3,537)
Revaluation of contract liabilities in foreign currency	(332)

Management expects that 77.8% of the transaction price allocated to the unsatisfied contracts (which represent to contract liabilities) as of 31 December 2017 ($3,120,000), 12.5% and 4.6% ($500,000 and $185,000) will be recognised as revenue during the next annual reporting period and will be primarily recognised in the 2019 and 2020 financial years, respectively. The remaining 5.2% ($207,000) will be primarily recognised in the following financial years.

(c) Assets recognised from costs to obtain and fulfil a contract

The Company recognises an asset in relation to marketing costs to obtain a contract. The asset is recognised as the Company expects to recover the cost over the expected relationship period with the customer which includes the initial contract period and expected renewals. The expected relationship period with the customer is estimated based on historical contract renewals data. The asset is amortised on a straight-line basis over the expected relationship period with the customer.

In addition, the Company recognised an asset for fulfilment costs that are considered directly attributable in fulfilling a contract. The fulfilment costs comprised of processing fees paid to third party processing service providers. This asset is amortised on a systematic basis over the initial contract period.

	31 December 2017 (USD, in thousands)
Asset recognised from marketing cost to obtain a contract	1,386
Asset recognised from fulfilment cost to fulfil a contract	406
Amortisation recognised during the period – marketing costs	(294)
Amortisation recognised during the period – fulfilment cost	(804)

5 Segmental information

Segments' revenues and results

Based on the management reporting system, the Group operates three reportable segments:

- App Distribution – comprising the Group's own software and SaaS products and distribution platform;
- Media – comprising the Group's ad network activities and associated technology platforms; and
- Web Apps and License – comprising revenue generated from monetising web apps and licencing the associated technology

Year ended 31 December 2017	App Distribution 2017 $'000	Media 2017 $'000	Web Apps and License 2017 $'000	Total 2016 $'000
Revenue	48,226	15,781	2,376	66,383
Cost of sales	(4,572)	–	–	(4,572)
Direct sales and marketing costs	(26,447)	(11,317)	–	(37,764)
Segment result	17,207	4,464	2,376	24,047
Central operating costs				(15,786)
Adjusted EBITDA(1)				8,261
Depreciation and amortisation				(6,445)
Employee share-based payment charge				(340)
Charge for repurchase of employee options				(3,176)
Exceptional and non-recurring costs				(899)
Operating loss				(2,599)
Share of results of associates				(40)
Finance income				277
Finance costs				(532)
Loss before tax				(2,894)
Taxation				(467)
Loss after taxation				(3,361)

5 Segmental information continued

Exceptional and non-recurring costs in 2017 comprised $0.3 million of acquisition bonuses to employees, other non-recurring staff costs of $0.1 million, professional services related to business combination of $0.3 million and a $0.2 million expense from repurchase of CyberGhost's founder's share options on 20 November 2017.

Year ended 31 December 2016	App Distribution 2016 $'000	Media 2016 $'000	Web Apps and License 2016 $'000	Total 2016 $'000
Revenue	38,241	13,783	4,508	56,532
Cost of sales	(2,360)	–	–	(2,360)
Direct sales and marketing costs	(24,614)	(10,303)	–	(34,917)
Segment result	11,267	3,480	4,508	19,255
Central operating costs				(12,842)
Adjusted EBITDA[1]				6,413
Depreciation and amortisation				(9,884)
Impairment of intangible assets				(4,683)
Employee share-based payment charge				(716)
Exceptional and non-recurring costs				(862)
Operating loss				(9,732)
Share of results of associates				47
Finance income				4
Finance costs				(332)
Loss before tax				(10,013)
Taxation				(665)
Loss after taxation				(10,678)

Exceptional and non-recurring costs in 2016 comprised non-recurring staff restructuring costs of $0.6 million and a $0.3 million one-time onerous contract written-off in the period. The decrease in the employee share-based payment charge is due to reversal of charges from previous periods for employees that left the Company during the year.

The impairment of intangible assets charge of $4,683,000 relates to the Media segment. After allocating this charge to the Media segment, the segment result is $1,203,000 loss.

1 Adjusted EBITDA is a company specific measure which is calculated as operating loss before depreciation, amortisation, exceptional and non-recurring costs, employee share-based payment charges and impairment of intangible assets which are considered to be one-off and non-recurring in nature as set out in note 6. The Directors believe that this provides a better understanding of the underlying trading performance of the business.

Information about major customers

In 2017 and 2016 there were no customers contributing more than 10% of total revenue of the Group.

Geographical analysis of revenue

Revenue by origin

	2017 $'000	2016 $'000
Europe	48,800	17,297
British Virgin Islands	9,878	27,520
Asia	7,705	11,715
	66,383	56,532

Reimage Limited was re-domiciled from British Virgin Islands to Isle of Man on 8 September 2016.

Geographical analysis of non-current assets

	2017 $'000	2016 $'000
Europe	10,364	3,990
British Virgin Islands	1,954	–
Asia	847	3,714
Total intangible assets and property, plant and equipment	13,165	7,704

6 Operating loss

Operating loss has been arrived at after charging:

Adjusted EBITDA

Adjusted EBITDA is calculated as follows:

	2017 $'000	2016 $'000
Operating loss	(2,599)	(9,732)
Depreciation and amortisation	6,445	9,884
Impairment of intangible assets	–	4,683
Employee share-based payment charge	3,516	716
Exceptional and non-recurring costs:		
Non-recurring staff and restructuring costs	899	862
Adjusted EBITDA	8,261	6,413
Excluding Web Apps and License segment	(2,062)	(4,139)
Adjusted EBITDA excluding Web Apps and License segment	6,199	2,274

	2017 $'000	2016 $'000
Exceptional and non-recurring costs		
Non-recurring staff costs	398	562
Professional services related to business combination	293	300
Expenses from repurchase of employee share options	208	–
	899	862
Auditor's remuneration:		
Audit	158	147
Taxation services	8	21
Amortisation of intangible assets	6,046	9,421
Depreciation	399	463
Impairment of intangible assets (note 10)	–	4,683
Employee share-based payment charge (note 7)	3,516	716
Rent payable under operating leases	717	459

Operating costs

Operating costs are further analysed as follows:

	2017 Adjusted $'000	2017 Total $'000	2016 Adjusted $'000	2016 Total $'000
Direct sales and marketing costs	37,764	37,764	34,917	34,917
Indirect sales and marketing costs	6,207	6,353	4,265	4,998
Selling and marketing costs	43,971	44,117	39,182	39,915
Research and development costs	696	1,016	1,299	1,661
Management, general and administrative cost	8,883	12,832	7,278	7,761
Depreciation and amortisation	1,315	6,445	1,379	9,884
Impairment of intangible assets	–	–	–	4,683
Total operating costs	54,865	64,410	49,138	63,904

Adjusted operating costs exclude share-based payment charges, exceptional and non-recurring costs, amortisation of acquired intangible assets and impairment of intangible assets. See note 4.

7 Staff costs

Total staff costs comprise the following:

	2017 $'000	2016 $'000
Salaries and related costs	8,564	7,204
Employee share-based payment charge (note 18)	3,516	716
	12,080	7,920

The remuneration of the key management personnel of the Group which comprises the Executive Directors and senior management team, is set out below:

	2017 $'000	2016 $'000
The aggregate remuneration comprised:		
Wages and salaries	1,932	1,490
Employee share-based payment charge	3,608	185
	5,540	1,675

Details of Directors' remuneration are set out in the Remuneration Committee report on pages 18 to 19.

8 Finance costs

	2017 $'000	2016 $'000
Interest expense	411	51
Net foreign exchange and Other finance expenses	121	281
	532	332

The entire interest expense was incurred on deferred consideration payments that was originally recognised at fair value.

9 Taxation

The Parent Company is domiciled, for tax purposes, in both the Isle of Man and the UK. The final tax charge shown below arises partially from the difference in tax rates applied in the different jurisdictions in which the subsidiaries operate.

The Group continues to recognise a deferred tax asset of $97,000 (2016: $166,000) in respect of tax losses accumulated in previous years.

The total tax charge can be reconciled to the overall tax charge as follows:

	2017 $'000	2016 $'000
Loss before taxation	(2,894)	(10,013)
Tax at the applicable tax rate of 19% (2016: 20%)	(550)	(2,003)
Tax effect of:		
Differences in overseas rates	(421)	976
Expenses not deductible for tax purposes	1,253	1,327
Deferred tax not recognised on losses carried forward	122	440
Tax expense for previous years	63	(75)
Tax charge for the year	467	665
Analysed as:		
Deferred taxation in respect of the current year	(650)	263
Current tax charge	1,117	402
Tax charge for the year	467	665

The Group has maximum corporation tax losses carried forward at each period end as set out below:

	2017 $'000	2016 $'000
Corporate tax losses carried forward	33,235	28,320

Details of the deferred tax asset recognised (arising in respect of losses) is set out below:

	2017 $'000	2016 $'000
At the beginning of the year	166	716
Additions through business combinations	10	–
Derecognised in the year	(100)	(558)
Foreign exchange revaluation	21	8
At the end of the year	97	166

Details of the deferred tax liability recognised (arising from timing differences on intangible valuations on business combinations) is set out below:

	2017 $'000	2016 $'000
At the beginning of the year	691	986
Arising from business combinations	366	–
Foreign exchange differences	42	–
Movement in the year due to temporary differences	(750)	(295)
At the end of the year	349	691

In addition, the Group has an unrecognised deferred tax asset in respect of the following:

	2017 $'000	2016 $'000
Tax losses carried forward	33,026	28,047

10 Intangible assets

	Intellectual property $'000	Trademarks $'000	Customer lists $'000	Goodwill $'000	Internet domains $'000	Capitalised software development costs $'000	Total $'000
Cost							
At 1 January 2016	35,205	9,462	2,383	7,684	69	2,706	57,509
Additions	1,219	–	–	–	–	744	1,963
At 31 December 2016	36,424	9,462	2,383	7,684	69	3,450	59,472
Additions	–	90	–	–	25	1,432	1,547
Acquisition through business combination	1,706	546	743	5,690	–	204	8,889
Foreign exchange differences	212	70	92	479	–	16	869
At 31 December 2017	38,342	10,168	3,218	13,853	94	5,102	70,777
Accumulated amortisation							
At 1 January 2016	(27,031)	(6,474)	(932)	(2,316)	–	(1,502)	(38,255)
Charge for the year	(6,528)	(1,494)	(483)	–	–	(916)	(9,421)
Impairment losses	–	–	–	(4,683)	–	–	(4,683)
At 31 December 2016	(33,559)	(7,968)	(1,415)	(6,999)	–	(2,418)	(52,359)
Charge for the period	(2,320)	(1,595)	(1,128)	–	–	(1,003)	(6,046)
Foreign exchange differences	(12)	(4)	(5)	–	–	(1)	(22)
At 31 December 2017	(35,891)	(9,567)	(2,548)	(6,999)	–	(3,422)	(58,427)
Net book value							
At 1 January 2016	8,174	2,988	1,451	5,368	69	1,204	19,254
At 31 December 2016	2,865	1,494	968	685	69	1,032	7,113
At 31 December 2017	2,451	601	670	6,854	94	1,680	12,350

10 Intangible assets continued

On 14 March 2017, the Group acquired 100% of the share capital of CyberGhost S.A ("CyberGhost"), a leading cybersecurity SaaS provider, with a focus on the provision of virtual private network ("VPN") solutions. Prior to the acquisition date, CyberGhost acquired Mobile Concepts GmbH, a software development company based in Germany, for an amount of €1.5 million, as set out in note 21.

On 1 April 2017, the Company increased its holding in Clearvelvet Trading Limited ("Clearvelvet") to 50.01% of the share capital by acquiring an additional 33.34% of its issued share capital. In September 2015, the Group acquired 16.67% of the share capital of Clearvelvet for a total consideration of $850,000, of which $350,000 was paid in 2016 with the completion of certain milestones. Clearvelvet's founders hold the remaining 49.99% of the shares. Following completion Clearvelvet is considered to be a subsidiary undertaking and has been included in the Company's consolidated statements on a basis of full consolidation, as set out in note 21.

In October 2016, the Group exercised an option to acquire the intellectual property of PC maintenance software product, DriverAgent, from eSupport.com Inc. for a total consideration of $1,208,000. $150,000 from the consideration was paid in the year ending 31 December 2015 for the option and $850,000 was paid during the year ending 31 December 2016. Another $208,000 is deferred consideration which is contingent on future results of the product.

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units (CGUs), or group of units that are expected to benefit from that business combination.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations.

The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period.

At 31 December 2017, before impairment testing, the carrying value of intangible assets allocated to the Media CGU was $2,889,000, including goodwill of $2,524,000. The carrying value of the goodwill has not been changed due to the impairment testing and no impairment loss was recognised.

For the Media CGU, the Group has prepared calculations based on cash flow projections for the next five years from the most recent budgets approved by management and extrapolated cash flows beyond this period using an estimated growth rate of 1 per cent (2016: 1 per cent). This rate does not exceed the average long-term growth rate for the relevant markets. The rate used to discount these forecast cash flows is 25 per cent (2016: 25 per cent).

The discount rate used in the valuation of the Media CGU was 25 per cent. If the discount rate was increased by 1 percentage point the effect would have been nil. There is no reasonably possible change in assumption that would give rise to an impairment.

At 31 December 2016, before impairment testing, the carrying value of intangible assets allocated to the Media CGU was $9,417,000, including goodwill of $5,368,000. As a result of the reduction in the management forecasted cash flows attributable to the acquired intangible assets, the carrying value of the goodwill has therefore been reduced to its recoverable amount of $685,000 through recognition of an impairment loss of $4,683,000.

	Web Apps and License $'000	Media $'000	App Distribution $'000	Total $'000
Carrying value before impairment losses at 1 January 2016	974	9,417	1,405	11,796
Provisions for impairment	–	(4,683)	–	(4,683)
Net book value at 31 December 2016	974	4,734	1,405	7,113

The Group tests the useful economic life of the Intangible asset whenever events or changes in circumstances indicate that the useful economic life may need to be changed. The brought-forward media CGU intellectual property, customer lists and trademark were fully amortised in the year ended 31 December 2017 due to a change in management assumptions with the expected useful life of these assets. If the management assumption was not changed, the amortisation attributed to the media intellectual property and customer lists would have been $2,416,000 instead of $3,629,000.

11 Property, plant and equipment

	Computer equipment $'000	Furniture, fixtures and office equipment $'000	Leasehold improvements $'000	Cars $'000	Total $'000
Cost					
At 1 January 2016	917	374	736	–	2,027
Additions	78	3	27	–	108
Disposals	(19)	(98)	(313)	–	(430)
At 31 December 2016	976	279	450	–	1,705
Additions	215	40	174	111	540
Disposals	(67)	(140)	(350)	–	(557)
Acquisition through business combination	94	60	14	42	210
Foreign exchange differences	22	6	2	9	39
At 31 December 2017	1,240	245	290	162	1,937
Accumulated depreciation:					
At 1 January 2016	(574)	(87)	(363)		(1,024)
Charge for the period	(150)	(50)	(263)		(463)
Disposals	11	49	311		371
Foreign exchange differences	2	–	–		2
At 31 December 2016	(711)	(88)	(315)	–	(1,114)
Charge for the period	(250)	(29)	(106)	(14)	(399)
Disposals	55	44	304		403
Foreign exchange differences	(9)	(1)		(2)	(12)
At 31 December 2017	(915)	(74)	(117)	(16)	(1,122)
Net book value					
At 1 January 2016	343	287	373	–	1,003
At 31 December 2016	265	191	135	–	591
At 31 December 2017	325	171	173	146	815

12 Trade and other receivables

	2017 $'000	2016 $'000
Trade receivables and accrued income	8,536	5,604
Prepayments	663	391
Other receivables	1,872	1,955
	11,071	7,950

Other receivables as of 31 December 2017 include VAT receivable balance of $742,000 (2016: $187,000)

The ageing of trade receivables that are past due but not impaired is shown below:

	2017 $'000	2016 $'000
Between 1 and 30 days	455	685
Between 31 and 60 days	411	219
More than 60 days	1,734	247
	2,600	1,151

The fair values of trade and other receivables due within one year approximate to their carrying amounts as presented above. The exposure of the Group to credit risk and impairment losses in relation to trade and other receivables is set out in note 17 of the consolidated financial statements.

13 Cash and cash equivalents

	2017 $'000	2016 $'000
Cash in bank accounts	17,844	59,857
Bank deposits	51,658	12,207
	69,502	72,064

The carrying value of these assets represents a reasonable approximation to their fair value.

14 Trade and other payables

	2017 $'000	2016 $'000
Trade payables	2,469	1,879
Accrued expenses	4,643	3,367
Employee liabilities	655	709
Current tax liability	1,573	484
Other payables	754	657
	10,094	7,096

The Group's management consider that the carrying value of trade and other payables approximates their fair value. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe and no interest has been charged by any suppliers as a result of late payment of invoices.

15 Shareholder's equity

	2017 Number of shares	2016 Number of shares
Issued and paid up ordinary shares of $0.0001	148,496,073	148,496,073

During the year a total of 801,175 new ordinary shares of $0.0001 par value from treasury were sold for cash in relation to share option schemes resulting in cash consideration of $437,000 (2016: $nil).

During the year a total of 3,810,667 of share options of $0.0001 par value were repurchased by the Company for a total cash consideration of $3,800,000 (2016: $nil).

During 2016 a total of 1,250,000 of ordinary shares of $0.0001 par value were purchased by the Company for a total cash consideration of $994,952 and are held in treasury at the reporting date.

As at 31 December 2017, the Company held in the treasury a total of 6,650,248 of ordinary shares of $0.0001 per value (2016: 7,451,423). During 2017, 801,175 of ordinary shares of $0.0001 par value were transferred out of treasury to satisfy the exercise of options by the Company employees (2016: nil).

The following describes the nature and purpose of each reserve within owner's equity:

Reserve	Description and purpose
Additional paid in capital	Share premium (i.e. amount subscribed or share capital in excess of nominal value)
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income
Foreign exchange	Cumulative foreign exchange differences of translation of foreign operations

In accordance with Isle of Man company law, all of the reserves with the exception of share capital are distributable.

16 Interests in associates

On 1 April 2017, the Company increased its holding in Clearvelvet Trading Limited ("Clearvelvet") to 50.01% of the share capital of Clearvelvet by acquiring an additional 33.34% of its issued share capital. In September 2015, the Group acquired 16.67% of the share capital of Clearvelvet for a total consideration of $850,000, of which $350,000 paid in 2016 on completion of certain milestones.

Although the Group held less than 20% of the equity shares of the voting power at shareholder meetings, until 1 April 2017, the Group exercises significant influence by virtue of its contractual right to appoint one of four Directors to the Board of Directors of Clearvelvet and to veto certain significant trading and investment decisions. The acquisition details are set-off on note 21.

	2017 $'000	2016 $'000
Interest in associates at the beginning of the year	859	812
Investment in associates in the year	(40)	–
Share of results		47
Re-measurement gain on equity interest in associate	52	
Transfer on increase in stake (note 21)	(871)	
Interest in associates at the end of the year	–	859

Aggregated amounts relating to Clearvelvet as an equity accounted associate are as follows:

	2017 $'000	2016 $'000
Total current assets	–	6,117
Total current liabilities	–	5,467
Revenues	–	11,793
Profit (Loss)	(240)[1]	288

1 Clearvelvet loss until 1 April 2017.

17 Financial instruments

The Group is exposed to the risks that arise from its use of financial instruments. This note describes the objectives, policies and processes of the Group for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout this financial information.

Principal financial instruments

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

- Trade and other receivables
- Trade and other payables
- Cash and cash equivalents
- Loans receivable
- Deferred consideration

Financial assets

The Group held the following financial assets:

	2017 $'000	2016 $'000
Trade receivables and accrued income	8,536	5,604
Other receivables	1,872	1,955
Cash	69,502	72,064
	79,910	79,623

17 Financial instruments continued

Financial liabilities

The Group held the following financial liabilities:

	2017 $'000	2016 $'000
Amortised cost		
Trade payables	**2,469**	1,879
Other payables and accrued expenses	**5,939**	4,611
Deferred consideration (see note 25)	**1,915**	403
	10,323	6,893

The Group's Directors monitor and manage the financial risks relating to the operation of the Group. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

Market risk

(a) Foreign currency risk management

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Israeli New Shekel	**541**	473	**524**	703
Euro	**308**	761	**6,028**	2,300
British Pound	**74**	209	**259**	48
Australian Dollar	**–**	–	**–**	11
Romanian Lei	**269**	38	**219**	107
	1,192	1,481	**7,030**	3,169

A 10% weakening of the United States Dollar against the following currencies at 31 December 2017 would have increased/ (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% strengthening of the United States Dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

	Profit or loss	
	2017 $'000	2016 $'000
Israeli New Shekel	**(2)**	23
Euro	**572**	154
British Pound	**19**	(16)
Australian Dollar	**–**	1
Romanian Lei	**(5)**	7
	584	169

(b) Interest rate risk management

At the reporting date the interest rate analysis of financial instruments was:

	2017 $'000	2016 $'000
Fixed rate financial instruments		
Financial assets	**69,502**	72,064
	69,502	72,064

Any increase/ (decrease) in interest rates will have no effect on results and equity of the Group because all financial instruments are fixed rate.

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2017 $'000	2016 $'000
Trade and other receivables	9,527	5,738
Cash at bank	17,844	59,857
Bank deposits	51,658	12,207
Receivables from related companies	881	1,821
	79,910	79,623

Before accepting a new customer, the Group assesses each potential customer's credit quality and risk. Customer contracts are drafted to reduce any potential credit risk to the Group. Where appropriate the customer's recent financial statements are reviewed.

Trade receivables are regularly reviewed for bad and doubtful debts. The Group holds a provision of $239,000 at 31 December 2017 against bad and doubtful debts (2016: $230,000). At 31 December 2017, the Group had trade receivables of $2,600,000 (2016: $1,151,000) that were past due but not impaired. The ageing analysis of these past due receivables is set out in note 12.

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The Group does not hold any collateral as security. Impairments of trade receivables are expensed as operating expenses. The fair value of receivables equates to their book value. The Group does not collect external credit ratings for customers but uses its own methods for determining creditworthiness.

The Group and Company seek to limit the level of credit risk on cash and cash equivalents by depositing funds with banks that have high credit ratings.

Liquidity risk management

The Group's liquidity risk is monitored using regular cash flow reporting and projections to ensure that it is able to meet its obligations as they fall due.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

2017	Carrying amounts $'000	Contractual cash flows $'000	3 months or less $'000	Between 3–12 months $'000	Between 1–5 years $'000	More than 5 years $'000
Trade and other payables	8,318	8,318	8,318	–	–	–
Payables to related parties	90	90	90	–	–	
Deferred consideration	1,915	2,249	236	728	1,285	–
	10,323	10,657	8,644	728	1,285	–

2016	Carrying amounts $'000	Contractual cash flows $'000	3 months or less $'000	Between 3–12 months $'000	Between 1–5 years $'000	More than 5 years $'000
Trade and other payables	6,470	6,470	6,265	205	–	–
Payables to related parties	20	20	20	–	–	–
Deferred consideration	403	503	–	253	250	–
	6,893	6,993	6,285	458	250	–

18 Employee share-based payments

Options have been granted under the Group's share option scheme to subscribe for ordinary shares of the Company. At 31 December 2017, the following options were outstanding (2016: 10,259,383):

Group	Grant date	Number of shares under option	Subscription price per share
Group 1	29 May 2014	1,338,570	$0.538
Group 2	21 April 2015	523,063	$1.376
Group 3	5 January 2016	384,000	$0.749
Group 4	31 May 2016	2,000,000	$0.371
Group 5	26 October 2016	2,232,272	$0.492
Group 6	3 April 2017	884,000	$0.0001
Group 7	15 June 2017	1,128,424	$0.890
Total		8,490,329	

Vesting conditions

Groups 1-5 and 7 – 25% at the end of the first year following the grant date. 6.25% on a quarterly basis during 12 quarters period thereafter.

Group 6 – 50% at the end of the second year following the grant date and the remainder at the end of the third year following the grant.

The total number of shares exercisable as of 31 December 2017 was 2,973,348 (2016: 3,840,679).

The weighted average fair value of options granted in the year using the Cox, Ross and Rubinstein's Binomial Model (the "Binomial Model") was $0.50. The inputs into the Binomial model are as follows:

	2017 $'000	2016 $'000
Early exercise factor	**150%**	100%-150%
Fair value of Group's stock	**$0.78**	$0.40-$0.80
Expected volatility	**70%**	60%
Risk free interest rate	**0.16%-1.11%**	0.25%-1.89%
Dividend yield	**–**	–
Forfeiture rate	**43%**	7%-14%

Expected volatility was determined based on the historical volatility of comparable companies.

Forfeiture rate is assumed to be 7%-14% for senior management and 43% for other employees.

The risk-free interest rate was estimated based on average yields of UK Government Bonds.

The Group recognised total share-based payments relating to equity-settled share-based payment transactions as follows:

	2017 $'000	2016 $'000
Share-based payment charge	**340**	716
Charge for repurchase of employee options	**3,176**	–

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2017		2016	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
At the beginning of the year	**$0.66**	**10,259,383**	$0.66	14,481,158
Granted	**$0.17**	**5,843,424**	$0.51	5,338,272
Lapsed	**$0.81**	**(3,000,633)**	$0.56	(9,560,047)
Exercised	**$0.55**	**(801,178)**	–	–
Repurchased by the Company	**$0.0001**	**(3,810,667)**	–	–
At the end of the year	**$0.55**	**8,490,329**	$0.66	10,259,383

The options outstanding at 31 December 2017 had a weighted average remaining contractual life of 8.2 years (2016: 7.9 years).

On 20 November 2017, following his reposition from Managing Director to Chairman and Corporate Development Manager of CyberGhost, the Company repurchased and cancelled 3,810,667 options that were granted to the founder of CyberGhost on 3 April 2017. The total cash consideration for the options was of €3.2 million ($3.8 million) out of the total consideration, €1.6 million ($1.9 million) was paid upon execution of the repurchase agreement, while the remaining amount is to be paid in eight equal instalments. The fair value as of 20 November 2017 was €3.0 million ($3.4 million) and deducted from equity in accordance to IFRS 2. Following the cancellation of the options a $3.2 million charge was expensed as a result of vesting terms acceleration. An additional $0.2 expense was recorded as the consideration exceeded the fair value of the options.

19 Earnings per share

Basic loss/earnings per share is calculated by dividing the loss /earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

	2017 cents	2016 cents
Basic	**(2.4)**	(7.6)
Diluted	**(2.4)**	(7.6)
Adjusted basic	**3.8**	2.7
Adjusted diluted	**3.7**	2.7

Adjusted earnings per share is a non-GAAP measure and therefore the approach may differ between companies. Adjusted earnings have been calculated as follows:

	2017 $'000	2016 $'000
Loss for the year	(3,361)	(10,678)
Post tax adjustments:		
Employee share-based payment charge	3,535	823
Exceptional and non-recurring costs	793	774
Amortisation on acquired intangible assets	4,439	8,208
Impairment of intangible assets	–	4,683
Exceptional tax charge	–	–
Adjusted profit for the year	5,406	3,810

	Number	Number
Denominator – basic:		
Weighted average number of equity shares for the purpose of earnings per share	141,547,496	141,068,557
Denominator – diluted:		
Weighted average number of equity shares for the purpose of diluted earnings per share	145,260,658	141,182,911

The diluted denominator has not been used where this has anti-dilutive effect. Basic and diluted loss per share are therefore the same for reporting purposes.

The difference between weighted average number of ordinary shares used for basic earnings per share and the diluted earnings per share is 114,354, being the effect of all potentially dilutive ordinary shares derived from the number of share options granted to employees.

20 Subsidiaries

Name	Country of incorporation	Principal activities	Holding %
BestAd Hi Tech Media Limited[2]	Israel	Development technical support and marketing services	100
Crossrider Advanced Technologies Limited[2]	Israel	Development services and technical and marketing support	100
Crossrider (Israel) Limited[2]	Israel	Provision of marketing services to related parties	100
Crossrider Technologies Limited (formerly Market Connect (Cyprus) Limited)	Cyprus	Licensing of IP software and agency services to related parties	100
Crossrider Sports Limited[2]	United Kingdom	Provision of consulting services	100
Reimage Limited[1]	Isle of Man	Development and sale of the "Reimage" software tool.	100
Reimage Limited[2]	Cyprus	Consulting, market research and software development services	100
R.S.F Remote Software Fixing Limited[2]	Israel	Provision of development, technical support and marketing support services to its parent company	100
Crosspath Trading Limited	British Virgin Islands	Performance of commercial activity through the licensing of technology from Crossrider Technologies Ltd	100
Blueroad Trading Limited	Cyprus	Provision of agency services to Crosspath Limited	100
Frontbase Trading Limited	Cyprus	Provision of agency services to Crosspath Limited	100
Crossrider ROM SRL[2]	Romania	Provision of marketing and development services	100
Definiti Media Ltd(**)	Israel	Providing digital advertising services for mobile platforms	100
CyberGhost SRL[2]	Romania	Leading cybersecurity SaaS provider, with a focus on the provision of virtual private network ("VPN") solutions	100
Mobile Concept[2]	Germany	Provision of software development services to its parent company	100
Clearvelvet Trading Ltd[2]	British Virgin Islands	Performance of programmatic video advertising activity through the licensing of technology from Strongmove Consultants Ltd	50.01
Strongmove Consultants Ltd[2]	Cyprus	Licensing of agency services to related parties	50.01
Spartacs Technologies[2]	Israel	Provision of marketing support services to its parent company	50.01

1. Re-domiciled from British Virgin Islands on 8 September 2016.
2. Indirect shareholding.

The Group has been formed from a series of common control transactions which have been accounted for using merger accounting; and acquisitions from third parties which have been accounted for using the acquisition method.

21. Business combinations

(a) Acquisition of CyberGhost SA

On 14 March 2017 the Group acquired 100% of the share capital of CyberGhost S.A ("CyberGhost"), a leading cybersecurity SaaS provider, with a focus on the provision of virtual private network ("VPN") solutions. Prior to the acquisition date, CyberGhost acquired Mobile Concepts GmbH, a software development company based in Germany, for an amount of €1.5 million.

The acquisition is in line with the Company's stated strategy to broaden its product offering to service high-growth consumer markets, of which cybersecurity is a key vertical.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Acquiree's carrying amount before combination $'000	Fair value $'000
Brand and domain name	–	546
Customer relations	–	743
Technology	1,166	1,706
Deferred tax liability	–	(366)
Cash and cash equivalents	1,070	1,070
Trade and other receivables	1,181	1,181
Property, plant and equipment	199	199
Deferred revenues	(2,324)	(2,324)
Trade and other payables	(1,857)	(1,857)
	(565)	898
Fair value of consideration		
Cash		3,272
Contingent consideration		1,477
Total consideration		4,749
Goodwill		3,851

Net cash outflow on acquisition of business

	2017 $'000
Initial consideration	**3,272**
Prepayment in relation of deferred consideration	**1,871**
Cash and cash equivalents acquired	**(1,070)**
	4,073

CyberGhost was acquired for a total consideration of up to $9.6 million (€9.1 million). The consideration comprises of $3.3 million (€3.1 million) in cash at closing, $3.2 million (€3.0 million) in nominal value share options and deferred earn-out consideration capped at $3.2 million (€3.0 million), to be satisfied in cash on a Euro for Euro basis for the EBITDA of CyberGhost in the 12-month period post completion. $1.9 million (€1.75 million) was paid at closing as a prepayment of the deferred earn-out consideration.

The share options consideration comprised of 4,400,000 options that issued over ordinary shares in the capital of the Company ("ordinary shares") exercisable at the nominal value of the shares ("Consideration Options"). The Consideration Options are exercisable in two equal portions on the second and third anniversary of the acquisition completion and contingent on the continued employment of the founder. If exercised in full, the share options would represent 2.87% of the existing issued share capital of the Company.

On 20 November 2017, the Company repurchased 3,810,667 options out of the 4,400,000 option granted to the founder for total cash consideration of $3.8 million (€3.2 million). Out of which $1.9 million (€1.625 million) was paid upon execution of the repurchase agreement, while the remaining amount is to be paid in eight equal instalments amounting to $235 thousand (€197 thousand) per quarter over the course of two years.

The Company accelerated the vesting of the share options purchased and recognised immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period. Following the repurchase the Company recognised expenses of $0.2 million for the excess of the consideration over the fair value.

Following the acquisition date, CyberGhost has issued additional shares to the Company for a consideration amount of €1.9 million that been paid in cash during the period ended 31 December 2017.

Since the acquisition date, CyberGhost has contributed $6.4 million to Group revenues, and loss of $1.7 million to Group loss. When excluding the expense for the repurchase of CyberGhost's founder's options CyberGhost contributes $1.5 million profit to the Group loss. In addition, since the acquisition date, CyberGhost contributed $4.4 million to segmental results of the App Distribution segment (as set out in note 5). If the acquisition had occurred on 1 January 2017, Group revenue would have been $67.6 million, Group loss for the period would have been $3.3 million and the App Distribution segmental result would have been $18.1 million.

21. Business combinations continued

(b) Acquisition of Clearvelvet Trading Limited

On 1 April 2017, the Company increased its holding in Clearvelvet Trading Limited ("Clearvelvet") to 50.01% of the share capital by acquiring an additional 33.34% of its issued share capital. In September 2015, the Group acquired 16.67% of the share capital of Clearvelvet for a total consideration of $850,000, of which $350,000 was paid in 2016 with the completion of certain milestones. Clearvelvet's founders hold the remaining 49.99% of the shares. Following completion Clearvelvet is considered to be a subsidiary undertaking and has been included in the Company's consolidated statements on a basis of full consolidation.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Acquiree's carrying amount before combination $'000	Fair value $'000
Intangible assets	204	204
Investment	50	50
Property, plant and equipment	11	11
Trade and other receivables	3,992	3,992
Deferred tax asset	10	10
Cash and cash equivalents	1,387	1,387
Trade and other payables	(4,101)	(4,101)
	1,553	1,553
Fair value of consideration		
Cash		850
Conversion of convertible loan		894
Conversion of previously held interest in associate		871
Total consideration		2,615
Goodwill		1,839
Non-controlling interest		(777)

The initial consideration for the acquisition of Clearvelvet was $1.7 million out of which $894,000 was conversion of the loan given by the Group on January 2016 and cash consideration of $850,000. The cash consideration was paid during July 2017.

In addition, the sellers will be entitled to receive up to a total of $1.4 million earn-out consideration, to be satisfied in cash subject to their continued employment by Clearvelvet. The earn-out consideration is contingent on achieving EBITDA goals of $1.7 million in 2017 (pro-rated from 60% of target), which was not achieved, and $2.2 million for 2018 (pro-rated from 67% of target). The earn-out consideration is accounted as remuneration in the post-acquisition income statement rather as part of the acquisition cost.

Net cash outflow on acquisition of business

	2017 $'000
Cash and cash equivalents acquired	(1,387)
	(1,387)

Since the acquisition date, Clearvelvet has contributed $10.8 million to Group revenues, profit of $0.4 million to Group loss and $1.8 million to segmental results of the Media segment (as set out on note 5). If the acquisition had occurred on 1 January 2017, Group revenue would have been $68.9 million, Group loss for the period would have been $3.6 million and the Media segmental result would have been $4.9 million.

22 Related party transactions

The Group is controlled by Unikmind Holdings Limited incorporated in the British Virgin Islands, which owns 73% of the Company's shares. The controlling party is the Solidinsight Trust, established under the laws of the Isle of Man. Mr. Teddy Sagi is the sole ultimate beneficiary of the Solidinsight Trust.

(a) Related party transactions

The following transactions were carried out with related parties:

	2017 $'000	2016 $'000
Revenue from common controlled company	2,587	5,034
Technical support services to end customers provided by common controlled company	(2,704)	(2,105)
Payment processing services provided by common controlled company	(208)	(300)
Office rent expenses to common controlled companies	(230)	(82)
Revenue from equity investments	–	100
	(555)	2,647

(b) Receivables owed by related parties (see note 17)

Name	Nature of transaction	2017 $'000	2016 $'000
Parent Company	Unpaid share capital	10	10
Equity investments	Loan and Trade	–	799
Companies related by virtue of common control			
Trade		881	1,022
		891	1,831

(c) Payables to related parties (see note 17)

Name	Nature of transaction	2017 $'000	2016 $'000
Companies related by virtue of common control			
Other		90	20
		90	20

23 Operating leases

	2017 $'000	2016 $'000
Due less than 1 year	356	553
Due between 1 and 5 years	222	868
	578	1,421

The table above summarises the minimum commitments under the Group's office rental agreements.

24 Contingent liabilities

The Group had no contingent liabilities as at 31 December 2017.

25 Deferred consideration

(a) Acquisition of Definiti Media Limited

The consideration for the acquisition of Definiti Media Ltd in May 2014 included $2,489,000 deferred consideration. Of this, $845,000 was repaid during the year ending 31 December 2014 and $746,000 was repaid during the year ending 31 December 2015. The remainder was repaid during the year ending 31 December 2016.

(b) Acquisition of AjillionMax

The consideration for the acquisition of certain assets of AjillionMax Limited in May 2014 included $654,000 deferred consideration. Of this, $104,000 was repaid during the year ending 31 December 2014, $156,000 was repaid during the year ending 31 December 2015, $189,000 was repaid during the year ending 31 December 2016 and the remainder was repaid during the year ending 31 December 2017.

In addition, $435,000, included as part of the acquisition arrangements, has been recognised directly in the income statement during the year ending 31 December 2015, out of which $209,000 was paid in May 2017.

(c) Investment in Clearvelvet Trading Ltd

In September 2015, the Group acquired 16.67% of the share capital of Clearvelvet Limited for a total consideration of $850,000, of which $350,000 was paid in 2016 on completion of certain development milestones.

(d) Acquisition of DriverAgent intangibles

In October 2016, the Group acquired the intellectual property of PC maintenance software product, DriverAgent, from eSupport.com, Inc for a total consideration of $1.2 million. As of 31 December 2017, the consideration included $0.17 million of deferred consideration (2016: $0.2 million) which is contingent on future results.

(e) Repurchase of share-based consideration

On 20 November 2017, the Company repurchased 3,810,667 options out of the 4,057,813 option granted to CyberGhost's former founder for total cash consideration of $3.8 million (€3.2 million). Out of which $1.9 million (€1.625 million) paid upon execution of the purchase agreement, with the remaining amount to be paid in eight equal instalments amounting to $235 thousand (€197 thousand) per quarter over the course of two years and recognised as deferred consideration.

26 Subsequent events

On 7 March 2018, Crossrider plc announced the renaming of the Company to Kape Technologies plc. Trading in the Company's shares under the new name and TIDM, "KAPE", will commence on 13 March 2018.

NOTES

NOTES

SHAREHOLDER INFORMATION AND ADVISERS

Shareholder information, including financial results, news and information on products and services, can be found at **www.kape.com**

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Stock exchanges
The Company's ordinary shares are listed on the AIM market of the London Stock Exchange under the symbol "KAPE". The Company does not maintain listings on any other stock exchanges.

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