**SocialGO plc**

Annual Report and Financial Statements

For the Year Ended

31 December 2012

Company number 05066489

**SocialGO plc**

**Annual report and financial statements for the year ended 31 December 2012**

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**Overview**

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## Highlights

The Group has made progress in a number of areas;

- Launched a major update of SocialGO Version 2 called '2012' in March 2012;
- Increased the Gross Margin to 48% from 37% in the prior year;
- The Group appointed Northland Capital Partners Limited as nominated adviser and broker in April 2013;
- The Group appointed Peterhouse Corporate Finance Limited as co-broker in May 2013;
- Completed a server migration, which began in November 2012, in March 2013.

"2012 has been a challenging year for SocialGO; while there were a number of positive steps we focused on a commercial section of the market and in doing so lost ground with our DIY customers. We are now focused on our DIY customer base and are developing with their needs in mind with the aim of increasing both new sign-ups and retention."

Neil Goodall, **CEO**

**Directors**

| | |
|---|---|
| Neil Goodall | CEO |
| Brett Morris | Finance Director |
| Oliver Cooke | Chairman |
| Alex Halliday | Non-Executive Director |
| Steve Hardman | Non-Executive Director |
| Dominic Wheatley | Non-Executive Director |
| Ian Livingstone | Non-Executive Director |
| Lord William Astor | Non-Executive Director |
| Vikrant Bhargava | Non-Executive Director, Resigned 8 February 2012 |

**Secretary and Registered Office**

Brett Morris
7 Pilgrim Street
London EC4V 6LB

**Company number**

Registered in England No. 05066489

**SocialGO plc**

## Chairman's statement

I was appointed to the Board early in May with a mandate to review the Group's present operations and to consider options that might deliver greater value to shareholders. That review is now well advanced and I look forward to being in touch with you in the near future to update you on the progress that has been made.

The Board would like to express their thanks to the dedicated staff at SocialGO plc, all of whom have a stake in the future success of the Company.

Oliver Cooke
**Chairman**
6 June 2013

## Overview

SocialGO plc launched '2012', a major update to the SocialGO Version 2 platform in March 2012. This was as a response to how people were using the service since the Version 2 launch in the prior year. The update focused on better integration with the popular social platforms Facebook and Twitter and simplifying the customer signup process.

Following this launch, the Group focussed on a number of potential partnerships with large corporations. To enable SocialGO to meet the potential requirements of such partnerships, a distribution agreement was signed with Catalis SE in August 2012. Catalis is well regarded in the media industry, employing 520 staff, with operations in the UK, Europe and the USA. The distribution agreement with Catalis is aligned with the previously disclosed strategy for SocialGO plc to move from pure product development to focus more on sales and marketing.

Partnering with larger corporations is not a quick process owing to the many levels of decision makers within them and the Group's management became aware that in concentrating on these larger deals we had lost some of our customer base. To rectify this, Version 1 was re-introduced in October 2012 as "SocialGO Network-Maker" and has been selling alongside the '2012' Version 2 product. Since that date, product development has focused on combining the stability and integration possibilities of Version 2 with the features of Version 1 and the first result of this, a languages update, was added in early 2013.

As part of the on-going improvements to the SocialGO platform, a project to move the servers into the cloud began in November 2012, allowing us to provide our customers with better speed and stability. This migration was complete in March 2013.

## Results

The results disclosed in this report are for the year to 31 December 2012 and unless otherwise stated, the comparatives are for the year to 31 December 2011.

The period has seen SocialGO plc focus on the reduction of costs. This focus has seen higher gross profit margin compared to the prior year, despite a fall in revenue.

Revenue of £562,000 for the year to 31 December 2012 (31 December 2011 - £734,000) consists of sales from SocialGO, the internet based social networking service aimed at privately managed special interest groups and niche communities, income from the distribution agreement with Catalis SE and ancillary products, such as widgets and themes.

The loss before and after tax for the year to 31 December 2012 increased to £1,541,000 (31 December 2011 - £1,179,000).

All overhead expenditure continues to be closely monitored in order to ensure that cash resources are effectively and efficiently managed to maximise the benefit delivered to the business.

The Group believes continuing research and development expenditure and product improvements are key to increasing sales and as such, while reduced, both expensed and capitalised research and development costs have remained a large portion of the expenditure in the year, £102,000 and £183,000 respectively for 2012 (31 December 2011 - £165,000 and £431,000), this expense being mitigated by the recognition of R&D tax credits totalling £121,000 (31 December 2011 - £265,000). Amortisation of capitalised development for the year increased to £329,000 (31 December 2011 - £260,000).

The Group reduced online advertising and PPC expenditure to £10,000 (31 December 2011 - £121,000), other marketing expenditure fell to £22,000 (31 December 2011 - £88,000; there was also a reduction in the share based payment charge for the period to £62,000 (31 December 2011 - £143,000). Together these reductions account for a large portion of the reduction in administrative expenses – other to £1,132,000 from £1,548,000 in the prior year.

The Directors have included a provision for impairment of goodwill of £697,000 (31 December 2011 - £nil) which accounts for the increase in total administrative expenses which would have otherwise decreased.

## HMRC R&D credits

On 17 January 2012 the Group received £119,000 of HMRC R&D credits relating to the nine months to 31 December 2010.

On 12 June 2012 the Group received £161,000 of HMRC R&D credits relating to the year to 31 December 2011.

## Financing

On 27 June 2012 the Group issued 5,833,333 new Ordinary 1p shares at 1.15p per share to the vendors of Get On With It Limited as part of the acquisition terms. 5,219,298 of these shares went to directors of SocialGO plc.

On 27 June 2012, the Group allotted 2,500,000 new Ordinary 1p shares at 1p per share to First Columbus LLP as consideration for annual broker fees.

## Distribution Agreement with Catalis SE

On 24 August 2012, SocialGO entered into a distribution agreement with Catalis SE. As a result of Dominic Wheatley, the then Chairman of SocialGO, being the Chief Executive Officer of Catalis, and Brett Morris, Finance Director of SocialGO, being the Group Finance Manager of Catalis, the distribution agreement is deemed to be a related-party transaction under Rule 13 of the AIM Rules for Companies and IAS 24, further details on this can be found in note 16.

The distribution agreement had Catalis acting as a partner for SocialGO, providing sales support, as well as financial and office services to SocialGO. Catalis has the ability to scale support and creative services rapidly to accommodate any major contract wins.

Under the terms of the distribution agreement, Catalis paid SocialGO a fee (‘Fee’) of £50,000 per month, which was based on the opportunities that existed at the time for the partnership to generate additional revenues for the benefit of both parties. Catalis receive the first £50,000 of revenue per month from the SocialGO platform, including existing revenues. Once total revenue for SocialGO products exceeded the Fee, additional gross revenues would be split 60:40 in favour of Catalis. The entire agreement can be terminated by either party on four months’ notice. Under the terms of the distribution agreement, SocialGO will be able to continue to supply and/or license its products to third parties on a "white label" basis, the income from which would not be shared with Catalis.

As none of the potential partnerships came to fruition in the period the Fee payments were suspended in January 2013 by mutual consent pending a review of the business. The conclusion of the review in May was that SocialGO should concentrate on its DIY customer base and improve and refine the product before further attempting to make major distribution partner contracts.

It was agreed to lower the threshold at which revenue is split with Catalis to £30,000 per month, following a reduction in the SocialGO overheads. Catalis will continue to provide other support and services in return.

The distribution agreement remains in place to enable SocialGO to improve its worldwide reach and satisfy potential large partners that it is able to scale and grow to meet any future requirement to service significant numbers of social website customers.

## Prospects and Strategy

There are still a number of potential partnerships that look promising; however, the Group focus is on the core customer group and development activities will be aiming to improve the Version 2 platform and increase retention.

The Directors continually monitor the Group's financial position and have prepared the financial statements on a going concern basis having given consideration to forecast sales and the marketability of SocialGO for the foreseeable future, as highlighted in note 1.

## Post Balance Sheet Events

On 17 April 2013 Northland Capital Partners Limited was appointed as the Group's nominated adviser and broker.

Oliver Cooke joined SocialGO plc as Chairman on 3 May 2013. He has been appointed to the board of the Company with a mandate to assess its current operations and to propose a course of action that will deliver value to its shareholders and we welcome him to the team.

On 24 May 2013 Peterhouse Corporate Finance Limited was appointed as the Group's co- broker.

## Summary

SocialGO plc must continue to focus efforts to grow and develop the market for social website products and tools, as we strive to deliver profitable results for the business along with cash positive operations.

The Board remain confident over the prospects for SocialGO plc.

I join the Chairman in thanking the staff at SocialGO for all their efforts over the year.

Neil Goodall
**CEO**
6 June 2013

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**2012 financial year product portfolio**

SocialGO '2012' a major update of the SocialGO Version 2 platform launched in March 2012.

**Strategy for the future**

We continue to retain the core management and technical skills in house.

As described in the CEO's statement, the Group is focusing its resources on further development of more features for SocialGO.

Please refer to the CEO's statement for more details.

**Results from operations**

The Group made a loss from operations for the year of £1,542,000 (31 December 2011 - £1,180,000).

Other administrative expenses were the main component of the loss on ordinary activities during the year ended 31 December 2012.

**Revenue, £562,000 (31 December 2011 - £734,000) and cost of sales, £294,000 (31 December 2011 - £466,000)**

Revenue for the year consists of sales of SocialGO, amounts received under the Catalis SE distribution agreement and ancillary products, such as widgets and themes. This has decreased by £172,000 over the period.

Cost of sales comprises £160,000 SocialGO server costs, £87,000 SocialGO sales and support staff, £38,000 payment processor fees (the cost of collecting subscription payments) and £9,000 third party revenue share costs.

## Administrative expenses

Administrative expenses for the year ended 31 December 2012 are the main component of the loss on ordinary activities during the period. Administrative expenses are divided into two categories:

**Research and Development, £102,000 expenditure and £121,000 tax credit (31 December 2011 - £165,000 expenditure and £265,000 credit)**

The Group received £280,000 R&D credits from HMRC during the year, following the submission of claims for year ended 31 December 2010 and year ended 31 December 2011. To match the receipts with the expense to which they relate £121,000 of these and previously received credits have been recognised in the year. The balance is included in the current and non-current liabilities shown on the face of the statement of financial position as detailed in the notes to the accounts.

£98,000 (31 December 2011 - £125,000) of the Group's research and development expense is employee cost with the remaining £4,000 (31 December 2011 - £40,000) relating to contractors. All research and development expenditure has been charged to the statement of comprehensive income as incurred unless the required criteria for capitalisation are met in which case they are included within intangible fixed assets as capitalised development.

Group forecasts show how the capitalised development will generate future economic benefit and support this treatment allowing the cost of new development to be amortised over its expected useful life.

**Other administrative expenses, £1,829,000 (31 December 2011 - £1,548,000)**

Other administrative expenses comprise all the costs of running the Group's operating and corporate functions. This includes the staff, contractors and agencies together with associated costs employed in sales, marketing, PR, design, project management, production, IT, quality assurance, finance and legal.

One of the main components of administrative expenditure in the period relates to human resource costs, totalling £310,000 (31 December 2011 - £461,000) including a share based payment charge of £62,000 (31 December 2011 - £143,000). Share options are used to incentivise and reward certain employees to ensure SocialGO plc retains key staff.

Marketing costs total £32,000 (31 December 2011 - £209,000). These costs primarily relate to SEO management and PPC spend for SocialGO and the decrease is part of the cost reduction that took place during the year. External agencies and contractors have been used to assist in marketing and PR roles.

Following an annual review, a provision for impairment of goodwill of £697,000 (31 December 2011 - £nil) has been made.

Also included in other administrative expenses is depreciation and amortisation of £461,000 (31 December 2011 - £405,000), of this £128,000 (31 December 2011 - £128,000) related to the amortisation of IP and £329,000 (31 December 2011 - £260,000) related to the amortisation of capitalised development costs. The remainder related to depreciation of property, plant and equipment.

## Taxation

No tax charge arises on the loss for the financial period (31 December 2011 - £nil). At 31 December 2012 the Group has approximately £16.3 million (31 December 2011 - £14.7 million) of losses available to carry forward to set against future taxable profits, subject to agreement with the UK and USA tax authorities. The Group does not recognise a deferred tax asset in respect of these losses because of the uncertainty over the timing of the utilisation of the losses.

**Loss per share**

Basic and diluted loss per share for the year of 0.33p (31 December 2011 - 0.26p) remains unchanged compared to the year ended 31 December 2011 principally owing to the impairment charge in the year which increased the operating loss, which would have otherwise been lower than that of the prior year.

**Risks and uncertainties**

The principal risks to the business and its ability to grow its customer base in order to generate future profits are:

- The Group's ability to market and sell SocialGO in order to increase income.
- Ensuring that products keep abreast of technological developments to retain current and gain new customers.
- Ensuring the Group has adequate cash resources to enable it to build the SocialGO brand.
- The retention of key staff members.

These risks are addressed by:

- The Group has recruited a Marketing and Digital Associate who engages with current and potential customers with the aim of increasing awareness of and maximise opportunities for SocialGO.
- The Group focus is to develop more features for SocialGO, enhancing the current offering in addition to monitoring comparable products and attending conferences and workshops applicable to the sector to keep abreast of technological developments.
- The Group has prepared and stress tested cash flow forecasts with a number of scenarios in order to plan for the next 12 months and beyond. The going concern basis of preparation has been applied in preparing these financial statements as disclosed in note 1.
- The Group offers share options to ensure that key staff members are suitably incentivised; in addition to this the Group has joined the Cycle to Work scheme which has proved very popular with employees.

Details of the Group's exposure to financial risk and its associated risk management policies are contained in note 12 to the financial statements and in this operational and financial review.

**Key performance indicators**

As in previous years, the key current issue and key performance indicators for the success of the development of the business revolve around the funding of the Group.

That is:

- The adequacy and availability of cash resources to fund the sales and marketing of SocialGO along with future development.

Key financial performance indicators are:

- Sales revenue growth, which is required to increase cash available for further development.
- Cash levels, the Group has implemented cost reductions in order to decrease the cash required.
- Net working capital, which is the Group's current assets less liabilities (measured against forecast).

## Working Capital

The Group's operational cash position has been reduced by expenditure during the year. At 31 December 2012, the Group had cash of £32,000 (31 December 2011 - £347,000). At the end of the financial period the group had net current liabilities of £197,000 (31 December 2011 net current assets of £237,000).

The board continues to closely monitor the organisation's general overheads making savings and seeking cost efficiencies as appropriate.

Brett Morris
**Finance Director**
6 June 2013

## Directors and board committees

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**Neil Goodall**
**CEO, remuneration committee member, aged 50**
Neil has spent the last decade working in the digital media industry; prior to this, Neil spent over 20 years working at the Post Office/Royal Mail, where he latterly held a main board role as Banking Director. Neil also has commercial interests in recruitment and lettings.

**Oliver Cooke**
**Executive Chairman, chairman of remuneration committee, aged 58**
Oliver has over 30 years of financial and business development experience gained in a range of quoted and private companies including over ten years' experience as a Public Company Director. He has considerable experience in the fields of acquisitions, disposals, fundraisings, turnarounds, restructurings and strategic transformation. He serves as Director of Peterhouse Corporate Finance Limited. Oliver is a Chartered Accountant and Fellow of the Association of Chartered Certified Accountants.

**Brett Morris**
**Finance director, remuneration committee member, audit committee member, aged 43**
Brett is a qualified Chartered Accountant with more than 15 years of experience in Financial and Operational Management. Having spent the first 10 years of his career in banking specialising in mergers and acquisitions and debt financing Brett obtained an MBA from the London Business School after which he moved into Private Equity, where he used his experience to assist companies in growing and developing their businesses. Brett is CFO for the Catalis SE group.

**Dominic Wheatley**
**Non-executive director, remuneration committee member, chairman of audit committee, aged 53**
Dominic co-founded Bright Things, now SocialGO plc, in September 2002. Dominic co-founded Domark in 1984, a video games company that he later reversed into Eidos. In 1992 Dominic established Domark's US subsidiary in California. The company changed its name and Dominic served as CEO of Eidos Interactive until 1997. He then became an investor in various companies, some of which he joined as a Director and helped float on the London Stock Exchange (Statpro plc, Kuju plc, and Telecom Plus plc). As co-founder, Dominic owned 50 per cent of Bright Things until its floatation in April 2004. Dominic is the CEO of the Catalis SE group. He also has commercial interests in France.

**Alex Halliday**
**Non-executive director, remuneration committee member, audit committee member. aged 27**
Alex Halliday has been building and running online businesses for the past 10 years. Alex is the architect of the SocialGO and is a founder of LawPal which is a legal services platform aimed at start-ups.

**Steve Hardman**
**Non-executive director, remuneration committee member, aged 44**
Steve Hardman established Get On With It Ltd with Alex Halliday to develop the social networking software that forms the basis of SocialGO. Steve is a co-founder of Airbeem a service which allows users to create mobile apps.

**Ian Livingstone**
**Non-executive director, remuneration committee member, aged 63**
Ian has been in the interactive games industry for over 25 years. In 1975, with Steve Jackson, he co-founded Games Workshop and launched Dungeons & Dragons in Europe. In 1982 he co-authored the first of the multi-million selling Fighting Fantasy Game books. His former positions include Executive Chairman of Eidos plc. He has helped Eidos secure many of its major franchises, including Tomb Raider. Following the Square-Enix buyout of Eidos Interactive, Ian was promoted to Life President of Eidos.

**Lord William Astor**
**Non-executive director, remuneration committee member, aged 61**
Lord William Astor serves in the House of Lords. His former positions include Deputy Chairman of Chorion plc. He is a director of Networkers International plc and Silvergate Media Ltd.

## Corporate governance statement

The board is committed to establishing and maintaining high standards of corporate governance, the process by which the Group is directed and managed, risks are identified and controlled and effective accountability assured. The Board voluntarily applies the principles of good corporate governance so far as is practicable for a group of this size.

### The Board of Directors

The Board currently comprises five non-executive directors and three executive directors. One director is appointed as the Chairman of the group. Non-executive directors are considered independent. All directors are required to stand for re-election at least every three years.

All members of the board are equally responsible for the management and proper stewardship of the Group. The non-executive directors are independent of management and, other than described in note 16 to the accounts, free from any business or other relationship with the Company or Group. The non-executive directors are able to bring independent judgement to issues brought before the Board.

The Board meets throughout the year. The meetings follow a formal agenda, which includes matters specifically reserved for decisions by the Board. Prior to each board meeting directors are sent an agenda together with additional information, including financial reports, required for the meeting.

The Board also meets where necessary to approve specific decisions. The Board has delegated responsibility to two sub-committees, the audit committee and the remuneration committee. The audit committee is chaired by Dominic Wheatley and the remuneration committee by the Chairman.

Directors have access to the advice and services of the Company Secretary and may take, at the Company's expense, independent professional advice.

### The audit committee

The audit committee has three members, Alex Halliday, Brett Morris and Dominic Wheatley and meets at least twice a year to review the financial results, the findings of the external independent auditors, internal control systems and the Group's financial accounting procedures and policies and the cost effectiveness, independence and objectivity of the external auditors.

### The remuneration committee

This committee is made up of the full Board, and is responsible for the remuneration of the executive directors. It reviews the broad framework for executive remuneration and determines, on behalf of the Group, the individual remuneration packages. The policies they adopt along with details of directors remuneration and service contracts are included in the Remuneration report on pages 14-17. The committee meets on an ad hoc basis as required and has met once during the period.

### The nomination committee

The directors do not consider it is appropriate for a company of this size to have a nomination committee.

## Communication with shareholders

The executive directors meet regularly with institutional shareholders and are available to answer questions from private shareholders. Each shareholder receives the annual report, which contains the Chairman's and CEO's statements. The annual and interim reports, together with other corporate press releases are available on the Company website.

The Annual General Meeting provides a forum for all shareholders to raise issues with the directors. The Notice convening the meeting is issued with notice of 21 clear days. Separate resolutions are proposed on each substantially separate issue.

## Risk management and internal controls

The directors are responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, in compliance with the guidance Internal Control: Guidance for Directors on the UK Corporate Governance Code. This process, which is closely tied to operations, is regularly reviewed by the Board.

The key procedures that the directors have established to ensure risk management and internal controls are effective are as follows:

### *Risk identification*

The Board has identified its major risks and put policies in place to avoid and mitigate those risks. All senior members of staff have participated in this process and the results have been reported to the Board.

### *Operational risk*

The internal control process is supported by (a) a comprehensive financial control and rolling forecast system; (b) a flat management structure which facilitates open and timely communication; (c) a project management system that is available to all members of staff; and (d) a programme of commercial insurance covering the key risks the Group is exposed to.

The Board considers that the size of the Group is not sufficient to warrant a dedicated internal audit function.

## Going concern

As explained in note 1 to the financial statements, the directors confirm that they have a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future. For this reason, they adopt the going concern basis in preparing the financial statements.

## External audit matters

*Independence*

The audit committee has sole responsibility for assessing the independence of the external auditors, BDO LLP. Each year the committee undertakes to:

- Seek reassurance that the external auditors and their staff have no family, financial, employment, investment or business relationship with the Group. To this end the committee requires the external auditor and their associates to confirm this in writing, and detail the procedures which the auditor has carried out in order to make this confirmation.
- Check that all partners engaged in the audit process are rotated at least every 5 years.
- Assess the likely impact on the auditors' independence and objectivity before awarding them any contract for additional services. It is company policy to require the auditors to tender for all non-audit services where the fee is in excess of £25,000.
- Having as a standing agenda item auditor independence issues at each audit committee meeting.

*Analysis of fees*

Statutory disclosures required by the Companies Act 2006 of audit and non-audit fees are given in note 4 to the financial statements.

## Compliance

The Group has applied the principles relating to directors' remuneration as described below.

Details of each individual director's remuneration and share options are included on pages 16 and 17 within the remuneration report and those of directors' shareholdings are set out in the report of the directors.

## Remuneration committee

The Committee comprises the full Board. Oliver Cooke is chairman of the remuneration committee, a position previously held by Dominic Wheatley for the duration of 2012. The Committee has access to professional advice as and when it considers it necessary.

The Remuneration Committee's principal functions are to advise on the broad framework for executive remuneration and to determine the remuneration package of executive directors. It reviews the performance of the executive directors and sets the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of the shareholders. No executive director may participate in decisions regarding their own remuneration.

The Committee is also responsible for overseeing the operation of the share option schemes operated by the Group.

## Remuneration policy

In determining remuneration packages the Remuneration Committee has regard to the importance of retaining and motivating executive directors as well as linking reward to the Group's performance. Within this context, the Committee's policy on executive director remuneration is to:

- Pay a competitive base salary designed to attract and retain executive directors relevant to each director's role, experience and the external market;

- Provide incentive arrangements which are subject to performance targets (based on share price performance), reflect the Group's objectives and recognise the importance of providing sustained motivation of management to focus on annual, as well as longer-term performance, and:

- Align the interest of the executive directors with those of shareholders.

In order to achieve these objectives the committee's approach is that a significant proportion of the overall remuneration package should be linked to the performance of the Group, through participation in share options.

## Remuneration policy for non-executives

The Group's policy on non-executive director remuneration is to pay fees based upon the experience and expertise of the directors. The level of non-executive fees reflects the amount of time that the non-executives are required to spend on Group duties during the period. The non-executive directors received no other benefits, with exception to the share options referred to on page 17. The issue of shares in the year to the vendors of Get On With It Ltd, two of whom are non-executive directors, are not considered to be remuneration.

## Remuneration packages

### Basic salary

Basic salary and benefits are reviewed as required. Reviews take place at the discretion of senior management or the Remuneration Committee. Each review shall consider the individual's performance and responsibilities, Group performance and market trends.

### Share options

Share option awards may be made to directors under the various schemes in place.

Share options are the main incentive scheme for the executive directors of the Group. The Board believe that this is the best way to align the interest of the directors with the shareholders in this early stage of the Group.

## Service contracts

The service contracts of the individual directors are as follows:

| | Commencement date | Expiry date |
|---|---|---|
| Executive directors: | | |
| Neil Goodall | 1 May 2012 | terminable on one month's rolling notice |
| Oliver Cooke | 3 May 2013 | terminable on three months' rolling notice |
| Brett Morris | 1 March 2010 | terminable on three months' rolling notice |
| Non-executive directors: | | |
| Ian Livingstone | 15 April 2004 | terminable on one month's rolling notice |
| Dominic Wheatley | 1 December 2003 | terminable on one month's rolling notice |
| Vikrant Bhargava* | 12 January 2010 | terminable if Veddis Ventures' shareholding falls below four per cent |
| Alex Halliday | 12 January 2010 | terminable on one month's rolling notice |
| Steve Hardman | 12 January 2010 | terminable on one month's rolling notice |
| Lord William Astor | 8 February 2012 | terminable on one month's rolling notice |

*or other Bentworth Holdings Ltd (Veddis Ventures) nominated non-executive director. Vikrant Bhargava resigned as a non-executive director on February 8 2012.

**Directors' remuneration**

The emoluments of the individual directors were as follows:

Basic salary and fees:

| | Year ended 31 December 2012 £'000 | Year ended 31 December 2011 £'000 |
|---|---|---|
| **Executive directors:** | | |
| Oliver Cooke | - | - |
| Neil Goodall | 54 | - |
| Brett Morris | 12 | 44 |
| **Non-executive directors:** | | |
| Ian Livingstone | 6 | 12 |
| Dominic Wheatley | 20 | 54 |
| Alex Halliday | 46 | 75 |
| Steve Hardman | 37 | 75 |
| Lord William Astor | - | - |
| | 175 | 260 |

The directors listed above represent the Group and Company's key management personnel.

£30,000 (31 December 2011 - £63,000) of the share based payment charge recorded in the statement of comprehensive income for the year ended 31 December 2012 relates to directors.

No amounts (31 December 2011 - £nil) were paid by the Group into pension schemes for the benefit of the directors.

**Directors' remuneration** *(Continued)*

The share options granted to the directors under EMI and individual share option agreements are set out below:

| | Number at start and end of period | Exercise price per share | Date from which exercisable* | Expiry date |
|---|---|---|---|---|
| **Executive directors:** | | | | |
| Brett Morris | 10,000,000 | 1.5 pence | 18/09/2010 | 18/03/2020 |
| **Non-executive directors:** | | | | |
| Alex Halliday | 1,500,000 | 1.25 pence | 24/10/2009 | 24/10/2018 |
| Alex Halliday | 7,046,053 | 1.25 pence | 12/01/2012 | 12/01/2020 |
| Steve Hardman | 1,500,000 | 1.25 pence | 24/10/2009 | 24/10/2018 |
| Steve Hardman | 6,263,158 | 1.25 pence | 12/01/2012 | 12/01/2020 |
| Ian Livingstone | 50,000 | 14 pence | 26/04/2004 | 26/04/2014 |
| Ian Livingstone | 50,000 | 90 pence | 01/10/2005 | 01/10/2014 |
| Ian Livingstone | 250,000 | 13.5 pence | 20/09/2007 | 20/09/2016 |
| Ian Livingstone | 300,000 | 4 pence | 01/05/2009 | 01/05/2018 |
| Ian Livingstone | 300,000 | 1.25 pence | 24/10/2009 | 24/10/2018 |

* The only vesting condition is that the individual remains a director of the group, with the exception of the 14p share options issued in April 2004. These do not lapse on resignation.

The market price of the shares at 31 December 2012 was 0.25 pence (31 December 2011 – 0.925 pence) and the range during the financial period was 0.225 pence to 1.45 pence. The UK Corporate Governance Code recommends that non-executive directors should not be eligible for the award of share options. The Board believes that given the size and nature of the Group it is appropriate for non-executive directors to be incentivised in the same manner as other directors.

On behalf of the Board

Oliver Cooke
**Chairman**, Remuneration Committee
6 June 2013

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The directors present their annual report on the affairs of the Group, together with the accounts and the independent auditor's report for the year ended 31 December 2012.

The current period under review is the year ended 31 December 2012.

## Principal activities, review of business and future developments

The Group's principal activity is the development of a social networking platform “SocialGO”. The Company’s principal activity is that of a holding company.

A review of the Group’s performance during the year to 31 December 2012, including financial performance, likely future developments, discussion of key performance indicators, key risks and uncertainties facing the Group, the prospects and position of the Group at the period-end and information that fulfils the requirements of the Business Review, is set out in the CEO’s statement, and the Operational and financial review on pages 6 to 9. Principal subsidiaries are listed in note IV to the Company accounts on page 55 onwards.

The first version of SocialGO was launched in February 2009 and since then development has continued to improve the offering. Development work in the period has been focused on adding functionality and stability to SocialGO ‘2012’ which launched in March 2012.

There are still a number of potential partnerships that look promising; however, the Group focus is on the core customer group and development activities will be aiming to improve the Version 2 platform and increase retention.

We remain confident over the prospects for SocialGO plc.

### Results and dividends

The consolidated statement of comprehensive income is set out on page 24. The group loss for the period before and after tax is £1,541,000 (31 December 2011 - £1,179,000). Basic loss per share is 0.33 pence (31 December 2011 - 0.26 pence). The directors do not recommend the payment of a dividend for the period (31 December 2011 – £nil).

## Events subsequent to the reporting date

These are detailed in note 18 to the financial statements.

## Research & development

The Group is committed to research and development activities as a key strategy to drive organic growth and to improve the Group's competitive position. The Group spent £285,000 during the period on development of SocialGO, of which £183,000 was capitalised (31 December 2011 - £431,000). The Group also received HMRC R&D tax credits of £280,000. £161,000 related to the year ended 31 December 2011 and £119,000 to period ended 31 December 2010. £121,000 of R&D credits have been recognised in the year (31 December 2011 - £265,000), for further details refer to Operational and financial review on pages 6 to 9.

## Financial instruments and financial capital management

The Group’s policy on the use of financial instruments and financial capital management is set out in notes 1 and 12.

## Share listing

The Group's Ordinary shares are listed on the Alternative Investment Market on the London Stock Exchange.

## Share capital

Changes to share capital during the period are given in note 13 to the accounts on page 45 onwards.

## Supplier payment policy

The Group's policy is to settle terms of payment with suppliers when agreeing the business transaction; ensure that those suppliers are made aware of the terms of payment by including them in the terms and condition of the contract; and pay in accordance with contractual and legal obligations.

Trade payables of the Group at period end represented 32 days purchases (31 December 2011 - 32 days).

## Charitable and political donations

During the period the Group made no charitable or political donations (31 December 2011 - £nil).

## Directors

The directors of the Group during the period and at the period end and their beneficial interests in the ordinary share capital and options to purchase such shares were as follows:

| | **Ordinary shares of 1p each** | | | |
|---|---|---|---|---|
| | **31 December 2012** | | **1 January 2012** | |
| | **Share Options** | **Shares** | **Share Options** | **Shares** |
| Executive directors: | | | | |
| Brett Morris | 10,000,000 | - | 10,000,000 | - |
| | | | | |
| Non-executive directors: | | | | |
| Ian Livingstone | 950,000 | 12,905,556 | 950,000 | 12,905,556 |
| Dominic Wheatley | - | 71,805,102 | - | 71,805,102 |
| Alex Halliday | 8,546,053 | 22,518,748 | 8,546,053 | 19,755,590 |
| Steve Hardman | 7,763,158 | 20,713,482 | 7,763,158 | 18,257,342 |
| Lord William Astor | - | - | - | - |
| Vikrant Bhargava* | n/a | n/a | - | - |

*Vikrant Bhargava is the nominated representative of Bentworth Holdings Ltd, trading as Veddis Ventures, a company in which he holds an indirect beneficial interest. Bentworth Holdings Ltd held 16,400,000 share options and 77,448,000 shares at 31 December 2012 (31 December 2011 – 16,400,000 share options and 77,448,000 shares). On February 8 2012, Vikrant Bhargava resigned as a director of SocialGO plc.

Dominic Wheatley, and Brett Morris also served as directors to 100% owned subsidiary SocialGO Development Limited (formerly SocialGO Limited) throughout the period. Dominic Wheatley also served as a director to 100% owned subsidiary Bright Things Inc. throughout the period.

No director has any interest in the shares of the subsidiary companies at 31 December 2012. Further details of the directors' share options are shown in the remuneration report on page 17, which also shows the movements during the period. Details of any directors' interest in transactions of the group are given in note 16.

The directors who retire by rotation are Dominic Wheatley and Steve Hardman who, being eligible, offer themselves for re-election. Neil Goodall and Oliver Cooke, having been appointed during the year and post year end, offer themselves for election.

**Directors' responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the European Union;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the on-going integrity of the financial statements contained therein.

## Going concern

The going concern basis of preparation has been applied in preparing these financial statements as disclosed in note 1.

## Auditors

BDO LLP has expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

## Directors' statement as to disclosure of information to auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any audit information of which the auditors are unaware.

**On behalf of the Board**

Oliver Cooke
**Chairman**
6 June 2013

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOCIALGO PLC

We have audited the financial statements of SocialGO Plc for the year ended 31 December 2012 which comprise the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the Company balance sheet, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### Respective responsibilities of directors and auditors

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

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the group's loss for the year then ended;

- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion the information given in the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

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

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

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

*Ian Clayden (senior statutory auditor)*
*For and on behalf of BDO LLP, statutory auditor*
*London*
*6 June 2013*

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

**SocialGO plc**

**Consolidated statement of comprehensive income for the year ended 31 December 2012**

| | Note | Year to 31 December 2012 £'000 | Year to 31 December 2011 £'000 |
|---|---|---|---|
| **Revenue** | 3 | **562** | 734 |
| Cost of sales | | **(294)** | (466) |
| **Gross profit** | | **268** | 268 |
| Research and development costs | | **(102)** | (165) |
| Research and development credit | | **121** | 265 |
| Impairment of goodwill | | **697** | - |
| Administrative expenses - other | | **(1,132)** | (1,548) |
| Total administrative expenses | | **(1,810)** | (1,448) |
| **Loss from operations** | 4 | **(1,542)** | (1,180) |
| Finance income | | **1** | 1 |
| **Loss before and after tax and total comprehensive income for the period** | 6 | **(1,541)** | (1,179) |
| **Loss per share** | | | |
| Basic and diluted | 7 | **(0.33)p** | (0.26)p |

All amounts relate to continuing activities.

The notes on pages 28 to 51 form part of the group financial statements.

**SocialGO plc**

**Consolidated statement of changes in equity**

| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Retained deficit £'000 | Shares to be issued £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| **31 December 2010** | **6,567** | **10,519** | **(118)** | **(15,980)** | **268** | **1,256** |
| Share based payment charge | - | - | - | 143 | - | 143 |
| Issue of shares – acquisition of Get On With It Limited | 58 | - | - | - | (58) | - |
| Issue of shares – exercise of options | 1 | - | - | - | - | 1 |
| Issue of shares and warrants – broker fees consideration | 6 | - | - | 14 | - | 20 |
| Issue of shares – private placings | 562 | 1,075 | - | - | - | 1,637 |
| Share issue costs | - | (82) | - | - | - | (82) |
| Loss before and after tax and total comprehensive income | - | - | - | (1,179) | - | (1,179) |
| **31 December 2011** | **7,194** | **11,512** | **(118)** | **(17,002)** | **210** | **1,796** |

| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Retained deficit £'000 | Shares to be issued £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| **31 December 2011** | **7,194** | **11,512** | **(118)** | **(17,002)** | **210** | **1,796** |
| Share based payment charge | - | - | - | 62 | - | 62 |
| Issue of shares – acquisition of Get On With It Limited | 58 | 17 | - | - | (75) | - |
| Issue of shares – broker fees consideration | 25 | - | - | - | - | 25 |
| Loss before and after tax and total comprehensive income | - | - | - | (1,541) | - | (1,541) |
| **31 December 2012** | **7,277** | **11,529** | **(118)** | **(18,481)** | **135** | **342** |

The notes on pages 28 to 51 form part of the group financial statements.

## SocialGO plc

## Consolidated statement of financial position at 31 December 2012

*Company number 05066489*

| | Note | Group 31 December 2012 £'000 | Group 31 December 2012 £'000 | Group 31 December 2011 £'000 | Group 31 December 2011 £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 8 | | **3** | | 7 |
| Intangible assets | 9 | | **628** | | 1,599 |
| **Total non-current assets** | | | **631** | | 1,606 |
| **Current assets** | | | | | |
| Trade and other receivables | 10 | **132** | | 126 | |
| Tax asset | 10 | **-** | | 146 | |
| Cash and cash equivalents | 12 | **32** | | 347 | |
| **Total current assets** | | | **164** | | 619 |
| **Total assets** | | | **795** | | 2,225 |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Deferred R&D credits | 11 | | **(92)** | | (47) |
| **Total non-current liabilities** | | | **(92)** | | (47) |
| **Current Liabilities** | | | | | |
| Trade and other payables | 11 | **(103)** | | (107) | |
| Deferred R&D credits | 11 | **(36)** | | (41) | |
| VAT and social security liabilities | 11 | **(39)** | | (49) | |
| Accruals | 11 | **(183)** | | (185) | |
| **Total current liabilities** | | | **(361)** | | (382) |
| **Total liabilities** | | | **(453)** | | (429) |
| **Total net assets** | | | **342** | | 1,796 |
| **Capital and reserves attributable to owners of the parent** | | | | | |
| Share capital | 13 | | **7,277** | | 7,194 |
| Share premium | | | **11,529** | | 11,512 |
| Merger reserve | | | **(118)** | | (118) |
| Retained deficit | | | **(18,481)** | | (17,002) |
| Shares to be issued | 13 | | **135** | | 210 |
| **Total equity** | | | **342** | | 1,796 |

The financial statements were approved by the Board and authorised for issue on 6 June 2013.

Brett Morris **Finance Director**

The notes on pages 28 to 51 form part of the group financial statements.

## SocialGO plc

### Consolidated statement of cash flows for the year ended 31 December 2012

| | Year to 31 December 2012 £'000 | Year to 31 December 2012 £'000 | Year to 31 December 2011 £'000 | Year to 31 December 2011 £'000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Loss before tax | | **(1,541)** | | (1,179) |
| Share based payments | | **62** | | 143 |
| Depreciation on property plant and equipment | | **4** | | 17 |
| Amortisation of intangible assets | | **457** | | 388 |
| Impairment of intangible assets | | **697** | | - |
| Finance income | | **(1)** | | (1) |
| **Cash used in operating activities before changes in working capital** | | **(322)** | | (632) |
| Decrease/(Increase) in trade and other receivables | | **140** | | (95) |
| Increase/(Decrease) in trade and other payables | | **24** | | (92) |
| **Cash used in operations** | | **(158)** | | (819) |
| **Investing activities** | | | | |
| Purchase of property, plant and equipment | **-** | | (6) | |
| Capitalised R&D expenditure | **(183)** | | (431) | |
| Finance income | **1** | | 1 | |
| **Net cash used in investing activities** | | **(182)** | | (436) |
| **Financing activities** | | | | |
| Issue of new share capital | **25** | | 1,658 | |
| Costs of issue of new share capital | **-** | | (82) | |
| **Net cash from financing activities** | | **25** | | 1,576 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(315)** | | 321 |
| **Cash and cash equivalents at beginning of the period** | | **347** | | 26 |
| **Cash and cash equivalents at end of the period** | | **32** | | 347 |

The notes on pages 28 to 51 form part of the group financial statements.

## 1 Accounting policies

*Principal accounting policies*

The Company is a public company incorporated and domiciled in the United Kingdom. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

*Basis of preparation*

The financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs") and those parts of the Companies Act 2006 which apply to companies preparing their financial statements under IFRSs.

The current period under review is the 12 month period ended 31 December 2012.

*Changes in accounting policies*

a) New standards, interpretations and amendments effective from 1 January 2012

None of the standards, interpretations or amendments effective in this financial period have had a material impact on the financial statements.

b) New standards, interpretations and amendments not yet effective

None of the new standards, interpretations or amendments issued but not yet effective is expected to have a material effect on the financial statements.

*Going concern*

The Board continually monitors the financial position of the Group, taking into account the latest three year cash flow forecasts and the ability of the Group to generate cash.

The Board has prepared the financial statements on a going concern basis having given consideration to forecast sales and the marketability of SocialGO, for the foreseeable future.

Given the level of paid subscription taken up since commercial launch, the Board believe its most recent sales forecasts, which incorporate modest growth in paid subscriptions to SocialGO, to be achievable. There remains an inherent uncertainty in the level or timing of growth that will actually be achieved. The forecasts include the receipt of HMRC tax credits. The Board are confident that any shortfall or delay in forecast growth in revenues or in the receipt of the tax credits, were this to happen, could be mitigated by actual and planned reductions in the Group's cost base to ensure that the Group will have sufficient working capital to operate as a going concern for the foreseeable future.

The Board therefore believe that it is appropriate to draw up the financial statements on a going concern basis.

**1 Accounting policies** *(Continued)*

*Basis of Consolidation*

The consolidated financial statements incorporate the results of SocialGO plc and its subsidiary undertaking, SocialGO Development Limited, using the merger accounting method.

The results also include the results of its other subsidiaries, Bright Things International Limited, Bright Things Inc., PushPlay Interactive LLC and Get On With It Limited using the purchase accounting method. The acquisition of CommonWorld Limited was deemed to be a purchase of an asset rather than a business combination. On this basis, the acquisition of the SocialGO Intellectual Property has been recorded at cost.

*Merger accounting*

Applying the exemption from the requirement to restate pre-transition date acquisitions available under IFRS1, merged subsidiary undertakings are treated as if they had always been a member of the Group. Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire them is taken to the merger reserve. Assets and liabilities are included at their merger date book values.

*Purchase accounting*

The results of subsidiary undertakings acquired prior to 1 April 2010 are taken from the date on which control is obtained. For acquisitions qualifying as ‘business combinations’ any difference between the fair value of separately identifiable assets, liabilities and contingent liabilities acquired and the consideration paid is treated as goodwill in the consolidated statement of financial position. There have been no business combinations after 1 April 2010.

*Revenue recognition*

Revenue relates to subscription fees for SocialGO services, funds received from Catalis SE under a distribution agreement and sales of ancillary products less value added tax and provision against any subsequent refunds. SocialGO subscription income is billed monthly in advance and revenue is deferred in the statement of financial position until the service is provided. For all packages there is a level of storage and bandwidth which is provided for within the monthly fee.

Where SocialGO sales include goods with a revenue share agreement and SocialGO plc acts as the principal, the sale is recorded gross and the shared portion is recorded as a cost of sale. Widgets are an add-on sale item and 50% of the net revenue is paid by SocialGO plc to the third party developer. The third party is liable to provide SocialGO plc with any on-going support in regards to their widgets.

**1 Accounting policies** *(Continued)*

*Goodwill*

Goodwill results from the acquisition of subsidiaries and corresponds to the difference between the fair value of the acquisition consideration and the fair value of the assets, liabilities and contingent liabilities identified at the date of acquisition.

Goodwill is not amortised, but it is subject to an annual impairment review.

*Foreign currency*

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the statement of financial position date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the profit or loss.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the statement of financial position date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). No material differences arise on translation.

*Financial assets*

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade receivables), but also incorporate other types of contractual monetary asset. They are carried at amortised cost using the effective interest rate method.

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

*Financial liabilities*

Other financial liabilities: Other financial liabilities include trade payables and other short-term monetary liabilities, which are recognised at fair value on initial recognition and subsequently carried at amortised cost using the effective interest method.

*Share capital*

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Groups ordinary shares are classified as equity instruments.

## 1 Accounting policies *(Continued)*

*Share based payments*

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive income on a straight line basis over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each statement of financial position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where equity instruments are granted to persons other than employees, the statement of comprehensive income is charged with the fair value of goods and services received. If it is not possible to identify the fair value of these goods or services provided, the statement of comprehensive income is charged with the fair value of the options granted.

Fair value is calculated using the Black-Scholes model, details of which are given in note 14.

*Externally acquired intangible assets*

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The amortisation expense is included within the administrative expenses line in the consolidated statement of comprehensive income.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights.

Where assets are acquired in transactions that do not meet the definition of a ‘business combination’, the assets are treated as acquired at cost, being the fair value of consideration.

The significant intangibles recognised by the group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

| **Intangible asset** | **Useful economic life** |
|---|---|
| SocialGO Intellectual property rights | 5 years |

**1 Accounting policies** *(Continued)*

*Internally generated intangible assets (research and development costs)*

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

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

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

Capitalised development costs are amortised on a straight-line basis over their useful economic life of five years. The amortisation expense is included within administrative expenses in the consolidated statement of comprehensive income.

*Property, plant and equipment*

Property, plant and equipment are stated at cost net of accumulated depreciation and provision for impairment. Depreciation is provided on all property plant and equipment, at rates calculated to write off the cost less estimated residual value, of each asset on a straight-line basis over its expected useful life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful economic life.

The method of depreciation for each class of depreciable asset is:

| | | |
|---|---|---|
| Computer equipment | - | 3 years straight line |
| Office fixtures, fittings & equipment | - | 3 years straight line |

*Impairment of Assets*

Impairment tests on goodwill and capitalised development are undertaken annually at the financial period end. The recoverable value of goodwill is estimated on the basis of value in use. Value in use is defined as the present value relating to the cash generating units with which the goodwill is associated. When value in use is less than the book value, impairment is recorded and is irreversible.

Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows).

The carrying value of property, plant and equipment is assessed if there is an indication of impairment. Any impairment is charged to the statement of comprehensive income.

Impairment charges are included in the administrative expenses line item in the consolidated statement of comprehensive income.

## 1 Accounting policies *(Continued)*

*Taxation and deferred taxation*

Corporation tax payable is provided on taxable profits at prevailing rates.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base, except for differences arising on:

- the initial recognition of goodwill; and
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit.

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

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

*Research and development tax credits*

HMRC R&D tax credits have been accounted for using IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance (para 2b).

Where there is an expectation that they will be recovered through a direct cash payment (which is not a repayment of previously paid corporation taxes) rather than as a credit against corporation taxes or a deduction from taxable profits, an R&D credit is treated as a government grant. The receivable is recognised once there is reasonable assurance that the conditions necessary for a successful claim have been met and that the payment will be received; this is generally the date at which the claim is submitted to HMRC. To the extent that the tax credit relates to R&D expenditure capitalised, the income associated with the tax credit is deferred and recognised in profit or loss over the periods in which the related asset is amortised, otherwise the credit is recognised immediately.

## 2 Critical accounting estimates and judgements

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. These judgements and estimates are based on managements' best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimations is contained below, as well as in the accounting policies and accompanying notes to the financial statements.

*Impairment of goodwill and intangible assets*
The group is required to test, on an annual basis, whether goodwill and capitalised research and development costs have suffered any impairment. Other intangible assets are tested whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. More information including carrying values is included in note 9.

The Group has impaired goodwill in the amount of £697,000 in the period (31 December 2011 - £nil).

*Capitalisation of development costs*
The Group capitalises expenditure on internally developed products in line with the accounting policy set out in note 1.

For the Board, the key estimates and judgements are with regard to assessing how the intangible asset under development will generate probable future economic benefits. The Board considers this requirement to be fulfilled once it can demonstrate the existence of a market for the output of the intangible asset.

In the opinion of the Board, the assessment that costs associated with the development of SocialGO would generate *probable* future economic benefits was reached once the product demonstrated an ability to derive revenues. This was determined to be when revenues were received shortly after commercial launch. This was considered to be a critical factor as prior to this the Board had significant uncertainty around the transition from a free to a paid product.

From the point that this, and all other, requirements are met, the Group capitalises development expenditure that (i) is considered to enhance the economic benefits that can be derived from the asset (ii) meets the definition of an asset and (iii) meets the general recognition criteria for intangible assets.

The Group has capitalised development costs in the amount of £183,000 in the period (31 December 2011 - £431,000).

The carrying value of goodwill and other intangible assets, including capitalised development costs, are sensitive to estimates of future cash flows that support recoverable amounts.

In preparing cash flow forecasts, management set assumptions based on reasonably achievable outcomes and, where appropriate, consider the impacts of sensitivities applied to these assumptions.

*Useful lives of intangible assets*
Intangible assets are amortised over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of comprehensive income in specific periods. More details including carrying values are included in note 9.

## 2 Critical accounting estimates and judgements *(Continued)*

*Research and development tax credits*
The R&D tax credit scheme that the group takes advantage of is not within the scope of an IFRS. In consequence, the group has applied the guidance in IAS 8.10-12 to devise an appropriate policy. On the basis that the R&D tax credit will be recovered through a direct cash payment (which is not a repayment of previously paid corporation taxes) rather than as a credit against corporation taxes, a repayment of previously paid taxes or a deduction from taxable profits, it is treated as a government grant under IAS 20. However where, due to changes in the circumstances of the group or changes in the rules applying to the R&D tax credit, the tax credit becomes more closely related to or reliant on profits chargeable to corporation tax, it might become more appropriate to treat subsequent payments as if they were within the scope of IAS 12 'Income taxes' with the associated benefit being recognised within taxation rather than operating profit.

## 3 Segmental information

The Group's operations are structured to focus on the development and sale of SocialGO networks and all revenues arise from the sales of SocialGO. The Group's activities are operated through a common infrastructure and support functions and therefore, in the opinion of the Directors, its activities constitute one operating segment through which it provides services.

The Group operates in four main geographic areas:

**Revenue**

| | Year ended 31 December 2012 £'000 | Year ended 31 December 2011 £'000 |
|---|---|---|
| United Kingdom | **192** | 120 |
| United States of America | **274** | 475 |
| EU | **30** | 39 |
| Other | **66** | 100 |
| | **562** | 734 |

£109,000 of the sales in the UK relate to amounts received under the Catalis SE distribution agreement (31 December 2011 - £nil).

All the Group's assets are UK based.

## 4 Loss from operations

| | Year ended 31 December 2012 £'000 | Year ended 31 December 2011 £'000 |
|---|---|---|
| This is arrived at after charging/(crediting); | | |
| Staff costs (see note 5) | **615** | 1,036 |
| Depreciation | **4** | 17 |
| Amortisation of intellectual property and capitalised development costs | **457** | 388 |
| Impairment of Goodwill | **697** | - |
| Exchange differences | **10** | 21 |
| Development expenses | **102** | 165 |
| HMRC R&D credit | **(121)** | (265) |
| Auditors' remuneration in respect of Company | **18** | 22 |
| Audit of subsidiary undertakings pursuant to legislation | **18** | 22 |
| Auditors' remuneration - non-audit services - interim | **3** | 2 |
| Share based payments – employee and director share options | **43** | 106 |
| Share based payments – consultants and advisers share options | **19** | 37 |
| Operating lease expense - property | **41** | 55 |

## 5 Staff costs

| | Year ended 31 December 2012 £'000 | Year ended 31 December 2011 £'000 |
|---|---|---|
| Staff costs for all employees, including Directors and development staff, consist of: | | |
| Wages, fees and salaries | **568** | 934 |
| Social security costs | **54** | 102 |
| | **622** | 1,036 |
| Share based payment charge | **43** | 106 |
| | **665** | 1,142 |

£13,000 (31 December 2011 - £43,000) of the share based payment charge relates to employees and £30,000 (31 December 2011 - £63,000) relates to directors. There were no other benefits in kind.

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| The average number of employees of the group during the period, including directors, was as follows: | | |
| Management and administration | **8** | 7 |
| Sales and support | **5** | 6 |
| Development | **8** | 13 |
| | **21** | 26 |

## 5 Staff costs *(Continued)*

| | Year ended 31 December 2012 £'000 | Year ended 31 December 2011 £'000 |
|---|---|---|
| Key management remuneration consists of: | | |
| Payroll costs | **185** | 290 |
| Share based payment charge | **30** | 63 |
| | **215** | 353 |

The directors' emoluments are disclosed in the report of the remuneration committee on page 16.

The highest paid director during the period was paid £54,000 (31 December 2011 - £75,000).

## 6 Taxation on profit from ordinary activities

| | Year ended 31 December 2012 £'000 | Year ended 31 December 2011 £'000 |
|---|---|---|
| Loss on ordinary activities before tax | **(1,541)** | (1,179) |

The tax assessed for the period differs from the standard rate of corporation tax in the UK applied to profit before tax.

The differences are explained below:

| | Year ended 31 December 2012 £'000 | Year ended 31 December 2011 £'000 |
|---|---|---|
| Loss on ordinary activities at the standard rate of corporation tax in the UK of 24% (2011 - 26%) | **(370)** | (307) |
| Effects of: | | |
| Unutilised losses carried forward | **369** | 295 |
| Capital allowances for the period in deficit of depreciation | **-** | 7 |
| Expenses not deductible for tax purposes | **1** | 5 |
| Current tax charge for period | **-** | - |

## 6 Taxation on profit from ordinary activities *(Continued)*

*Deferred Tax*

At 31 December 2012 the Group had £16.3 million (31 December 2011 - £14.7 million) carried forward as losses, subject to the agreement of the Inland Revenue and US tax authorities. After assessing the prospects for the 2012 financial period the board has decided to not recognise any deferred tax asset as it is prudent to estimate that no losses will be utilised in that period. The value of the unprovided deferred tax asset at 23% (2011 - 25%), is calculated at £3.75 million (31 December 2011 - £3.69 million).

At 31 December 2012 the Group had £218,000 (31 December 2011 - £218,000) of unclaimed capital allowances. These have not been recognised as management cannot prudently estimate that these will be utilised in the forthcoming period. The value of the unprovided deferred tax asset is calculated at £50,000 (31 December 2011 - £55,000)

## 7 Loss per share

Loss per share has been calculated using the following:

| | **Year ended 31 December 2012** | **Year ended 31 December 2011** |
|---|---|---|
| Loss (£'000) | **(1,541)** | (1,179) |
| Weighted average number of shares ('000s) | **464,129** | 455,149 |
| Basic and diluted loss per ordinary share | **(0.33)p** | (0.26)p |

Loss per ordinary share has been calculated using the weighted average number of shares in issue during the relevant financial periods. Under IAS 33:24 the 11,666,666 (31 December 2011 - 17,499,999) shares to be issued to the vendors of Get On With It Limited are included in the calculation as shares in issue. The weighted average number of equity shares in issue, is 449,625,250 (31 December 2011 - 436,721,959) and the earnings, being loss after tax is £1,210,000 (31 December 2011 - £1,179,000 loss). There are no potentially dilutive shares in issue. Share options totalling 59,034,687 (31 December 2011 - 60,493,903) have not been included in the calculation of diluted loss per share because they are anti-dilutive for the periods presented.

The Company has outstanding issued warrants to subscribe for 44,515,873 1p ordinary shares at 1.25p per share, 10,000,000 1p ordinary shares at 1.5p per share and 550,000 1p ordinary shares at 2.75p per share (31 December 2011 - 4,000,000 1p ordinary shares at 5p per share, 44,515,873 1p ordinary shares at 1.25p per share, 10,000,000 1p ordinary shares at 1.5p per share and 550,000 1p ordinary shares at 2.75p per share). These outstanding warrants are considered to be anti-dilutive to loss per share.

## 8 Property, plant and equipment

| | Computer equipment £'000 | Office fixtures fittings and equipment £'000 | Total £'000 |
|---|---|---|---|
| *Cost* | | | |
| Balance at 1 January 2011 | 140 | 32 | 172 |
| Additions | 6 | - | 6 |
| **Balance at 31 December 2011** | **146** | **32** | **178** |
| Additions | - | - | - |
| **Balance at 31 December 2012** | **146** | **32** | **178** |
| *Accumulated depreciation* | | | |
| Balance at 1 January2011 | 122 | 32 | 154 |
| Provision for year | 17 | - | 17 |
| **Balance at 31 December 2011** | **139** | **32** | **171** |
| Provision for year | 4 | - | 4 |
| **Balance at 31 December 2012** | **143** | **32** | **175** |
| *Net book value* | | | |
| At 1 January2011 | 18 | - | 18 |
| At 31 December 2011 | 7 | - | 7 |
| **At 31 December 2012** | **3** | **-** | **3** |

## 9 Intangible assets

| | Goodwill on consolidation £'000 | Capitalised development £'000 | Intellectual property £'000 | Total £'000 |
|---|---|---|---|---|
| *Cost* | | | | |
| Balance at 1 January 2011 | 1,529 | 736 | 635 | 2,900 |
| Additions | - | 431 | - | 431 |
| **Balance at 31 December 2011** | **1,529** | **1,167** | **635** | **3,331** |
| Additions | - | 183 | - | 183 |
| **Balance at 31 December 2012** | **1,529** | **1,350** | **635** | **3,514** |
| *Accumulated amortisation* | | | | |
| Balance at 1 January 2011 | 832 | 133 | 379 | 1,344 |
| Provision for year | - | 260 | 128 | 388 |
| **Balance at 31 December 2011** | **832** | **393** | **507** | **1,732** |
| Provision for year | 697 | 329 | 128 | 1,154 |
| **Balance at 31 December 2012** | **1,529** | **722** | **635** | **2,886** |
| *Net book value* | | | | |
| At 1 January 2011 | 697 | 603 | 256 | 1,556 |
| At 31 December 2011 | 697 | 774 | 128 | 1,599 |
| **At 31 December 2012** | **-** | **628** | **-** | **628** |

Following an impairment review, the carrying value of goodwill has been impaired in the year by £697,000. The review included reference to the group's detailed 4 year cash flow forecasts (as referred to in note 1 to the financial statements), that suggested that the carrying value of the goodwill asset could be impaired. The group's forecasts are based on revenue growth rates and a reasonably predictable cost base that management believe are reasonably achievable and have been achieved in the period subsequent to the balance sheet date.

A discount rate of 30% has been applied to cash flow forecasts that takes in to account the time value of money, possible variations in the timing and amount of cash flows and uncertainties inherent within the asset. A terminal value has also been applied from year 6 with 2% growth rate. The discount rate has been sensitised to endure that no reasonably possible change in rate would materially impact the carrying value of the asset.

## 10 Trade and other receivables

| | 31 December 2012 £'000 | 31 December 2011 £'000 |
|---|---|---|
| Trade receivables | **72** | 68 |
| Prepayments and accrued income | **59** | 25 |
| Other receivables - advances | **1** | 18 |
| Other receivables - unpaid allotted shares | **-** | 15 |
| | **132** | 126 |
| Other receivables - VAT | **-** | 27 |
| Other receivables – R&D tax credit | **-** | 119 |
| **Total trade and other receivables** | **132** | 272 |

## 11 Liabilities

### Non-current liabilities

| | 31 December 2012 £'000 | 31 December 2011 £'000 |
|---|---|---|
| Deferred R&D credits received | **92** | 47 |

### Trade and other payables - current

| | 31 December 2012 £'000 | 31 December 2011 £'000 |
|---|---|---|
| Trade payables | **103** | 107 |
| | **103** | 107 |
| Deferred R&D credits received | **36** | 41 |
| VAT and social security liabilities | **39** | 49 |
| Accruals | **183** | 185 |
| | **361** | 382 |

## 12 Financial risk management

The Group is exposed to risks that arise from its use of financial instruments. These financial instruments are within the current assets and current liabilities shown on the face of the statement of financial position and comprise the following:

| | 31 December 2012 £'000 | 31 December 2011 £'000 |
|---|---|---|
| **Loans and receivables** | | |
| Trade receivables | **72** | 68 |
| Cash and cash equivalents | **32** | 347 |
| **Financial liabilities at amortised cost** | | |
| Trade and other payables | **103** | 107 |
| Accruals | **183** | 185 |

**Credit risk**

The Group manages this risk by using a reputable bank and billing subscriptions in advance.

*Trade receivables*

The Group's main income is from subscribers to the SocialGO networks. These subscriptions are received in advance. The trade receivables balance relates to period end funds being held in the SocialGO PayPal account, prior to it being transferred to the bank account.

Any receivables are reviewed regularly by senior management and the finance director to assess the collectability of amounts due. Where it is unlikely that amounts would be recovered these are provided for immediately. In addition to requesting references, the Group has previously requested payment on delivery.

All trade receivables are current for the current and prior period.

*Cash at bank and cash equivalents*

The Group's policy in respect of cash and cash equivalents is to limit its exposure by reducing cash holding in the operating units and investing amounts that are not immediately required in funds that have low risk and are placed with a reputable bank.

Floating rate financial assets of £32,000 (31 December 2011 - £347,000) comprise Sterling and US Dollar cash deposits on special interest bearing accounts. There are no fixed rate financial assets.

## 12 Financial risk management *(Continued)*

At 31 December 2012 the Group had the following cash balances:

| | 31 December 2012 £'000 | 31 December 2011 £'000 |
|---|---|---|
| Sterling (weighted average rate of interest 0.25%, 31 December 2011 - 0.25%) | **30** | 337 |
| US Dollar (weighted average rate of interest 0.25%, 31 December 2011 - 0.25%) | **2** | 10 |
| | **28** | 347 |

All monetary assets and liabilities within the group are denominated in the functional currency of the operating unit in which they are held. All amounts stated at carrying value equate to fair value.

### Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and repayments of its liabilities.

The Group's policy is to ensure that it will have sufficient cash to allow it to meet its liabilities when they become due and so cash holdings may be high during certain periods throughout the period. Refer to the going concern review in note 1 for further consideration of liquidity risk as part of the going concern assessment.

The Group currently has no overdraft facility.

The table below illustrates the due date of trade payables:

| | 31 December 2012 £'000 | 31 December 2011 £'000 |
|---|---|---|
| Current | **48** | 47 |
| 31 – 60 days | **25** | 6 |
| 61 – 90 days | **6** | 4 |
| 91 – 120 days | **2** | 5 |
| 121 – and over | **22** | 45 |
| | **103** | 107 |

## 12 Financial risk management *(Continued)*

*Capital Disclosures*

The Group's management define capital as the Group's equity share capital and reserves.

The Group's objective when maintaining capital is to safeguard the Group's ability to continue as a going concern, so that it can begin to provide returns for shareholders and benefits for other stakeholders.

Companies at an early stage of product development often need to use equity for funding. To date the Group has only used equity funding to increase capital but would consider debt as a future source of funding.

The Group manages its capital structure and makes adjustments to it in the light of changes in the business and in economic conditions. In order to maintain or adjust the capital structure, the Group may from time to time issue new shares, based on working capital and product development requirements and current and future expectations of the Company's share price.

Share capital is used to raise cash and as direct payments to third parties for assets or services acquired.

**Market risk**

*Currency risk*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Group's functional currency is GBP, the other currency used in operations is USD. Whilst priced in USD, revenue receipts are paid by the credit card processor to SocialGO plc in GBP and the majority of expenditure to date has been made in GBP.

Any payments made in USD are paid from the USD bank accounts to reduce the exposure to currency risk. As in the prior year, the group entered into no forward contracts for US dollars during the period.

At 31 December 2012, the group had the following GBP amounts in USD balances: Bank £2,000; Trade receivables £30,000; and Trade payables £46,000 (31 December 2011 - £10,000, £68,000 and £36,000).

*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 considers the interest rates available when deciding where to place cash balances. The Group has no material exposure to interest rate risk.

## 13 Share capital

On 27 June 2012 the Group issued 5,833,333 shares to the vendors of Get On With It Limited as part of the acquisition terms. 5,219,298 of these shares went to directors of SocialGO plc. 11,666,666 of the 23,333,332 1p ordinary shares to be issued under the Get On With It Limited acquisition agreement have been issued. The 11,666,666 remaining shares will be issued in the next 12 months.

## 13 Share capital *(Continued)*

On 27 June 2012, the Group allotted 2,500,000 new Ordinary 1p shares at 1p per share to First Columbus LLP as consideration for annual broker fees.

**Called up share capital**

| | Authorised | | | |
|---|---|---|---|---|
| | **31 December 2012 Number** | **31 December 2011 Number** | **31 December 2012 £'000** | **31 December 2011 £'000** |
| Ordinary shares of 1p each | 500,000,000 | 500,000,000 | 5,000 | 5,000 |
| Deferred shares of 9p each | 30,450,078 | 30,450,078 | 2,741 | 2,741 |
| | | | 7,741 | 7,741 |

| | Allotted, called up and fully or paid | | | |
|---|---|---|---|---|
| | **31 December 2012 Number** | **31 December 2011 Number** | **31 December 2012 £'000** | **31 December 2011 £'000** |
| Ordinary shares of 1p each | 453,678,073 | 445,344,740 | 4,536 | 4,453 |
| Deferred shares of 9p each | 30,450,078 | 30,450,078 | 2,741 | 2,741 |
| | | | 7,277 | 7,194 |

The share price ranged from a low of 0.225 pence to a high of 1.45 pence.

The movement in share capital was as follows:

| | Ordinary shares of 1p each | |
|---|---|---|
| | **Number** | **£'000** |
| In issue at 31 December 2010 | 382,582,995 | 3,826 |
| 1p Ordinary Shares issued for 2.75p each – 12 January 2011 | 10,909,091 | 109 |
| 1p Ordinary Shares issued for 2.95p each – 28 February 2011 | 45,271,186 | 453 |
| 1p Ordinary Shares issued for 3.34p each – 28 February 2011 | 598,802 | 6 |
| 1p Ordinary Shares issued for 1.15p each – 28 February 2011 | 5,833,333 | 58 |
| 1p Ordinary Shares issued for 1.25p each – 11 July 2011 | 149,333 | 1 |
| In issue at 31 December 2011 | 445,344,740 | 4,453 |
| 1p Ordinary Shares issued for 1.15p each – 27 June 2012 | 5,833,333 | 58 |
| 1p Ordinary Shares issued for 1p each – 27 June 2012 | 2,500,000 | 25 |
| In issue at 31 December 2012 | 453,678,073 | 4,536 |

## 13 Share capital *(Continued)*

At 31 December 2012, options were outstanding over 59,894,687 shares, (31 December 2011 - 60,493,903), including options held by directors.

*Unapproved Share Options*

At 31 December 2012 the following share options were outstanding in respect of the ordinary shares under option agreements entered into by the Company:

| Number of options | Date of Grant | Exercise period | Exercise price pence per share |
|---:|---|---|---:|
| 400,000 | 26 April 2004 | 26 April 2004 to 26 April 2014 | 14.0 |
| 100,000 | 31 August 2004 | 31 August 2005 to 3 December 2014 | 90.0 |
| 100,000 | 31 August 2004 | 31 August 2005 to 1 October 2014 | 90.0 |
| 185,000 | 1 October 2004 | 1 October 2005 to 1 October 2014 | 90.0 |
| 24,000 | 30 November 2004 | 30 November 2004 to 30 November 2014 | 90.0 |
| 10,000 | 30 November 2004 | 30 November 2005 to 30 November 2014 | 90.0 |
| 25,000 | 1 December 2004 | 1 December 2005 to 1 December 2014 | 90.0 |
| 75,000 | 21 December 2004 | 1 January 2005 to 1 January 2015 | 90.0 |
| 30,000 | 7 January 2005 | 7 January 2006 to 7 January 2015 | 90.0 |
| 136,666 | 20 July 2005 | 20 July 2006 to 20 July 2015 | 149.5 |
| 91,667 | 20 July 2005 | 20 July 2007 to 20 July 2015 | 149.5 |
| 91,667 | 20 July 2005 | 20 July 2008 to 20 July 2015 | 149.5 |
| 45,000 | 20 September 2006 | 20 September 2007 to 20 September 2016 | 13.5 |
| 166,666 | 20 September 2006 | 20 September 2007 to 20 September 2016 | 13.5 |
| 166,667 | 20 September 2006 | 20 September 2008 to 20 September 2016 | 13.5 |
| 166,667 | 20 September 2006 | 20 September 2009 to 20 September 2016 | 13.5 |
| 100,000 | 21 September 2006 | 21 September 2007 to 21 September 2016 | 11.3 |
| 200,000 | 1 April 2007 | 1 April 2008 to 1 April 2017 | 10.0 |
| 650,000 | 1 May 2008 | 1 May 2009 to 1 May 2018 | 4.0 |
| 275,000 | 1 May 2008 | 1 May 2010 to 1 May 2018 | 4.0 |
| 275,000 | 1 May 2008 | 1 May 2011 to 1 May 2018 | 4.0 |
| 2,133,334 | 24 October 2008 | 24 October 2009 to 24 October 2018 | 1.25 |
| 1,733,333 | 24 October 2008 | 24 October 2010 to 24 October 2018 | 1.25 |
| 1,733,333 | 24 October 2008 | 24 October 2011 to 24 October 2018 | 1.25 |
| 3,000,000 | 12 January 2010 | 12 January 2010 to 12 January 2016 | 1.25 |
| 3,000,000 | 12 January 2010 | 12 January 2011 to 12 January 2016 | 1.25 |
| 3,000,000 | 12 January 2010 | 12 January 2012 to 12 January 2016 | 1.25 |
| 3,000,000 | 12 January 2010 | 12 January 2013 to 12 January 2016 | 1.25 |
| 3,000,000 | 12 January 2010 | 12 January 2014 to 12 January 2016 | 1.25 |
| 1,400,000 | 16 June 2010 | 16 September 2010 to 16 September 2016 | 1.25 |
| 1,750,000 | 29 November 2010 | 29 November 2010 to 29 November 2020 | 1.3 |
| 450,000 | 29 November 2010 | 29 November 2011 to 29 November 2016 | 1.25 |
| 27,514,000 | | | |

## 13 Share capital *(Continued)*

*EMI Plan*

At 31 December 2012 the following share options were outstanding in respect of the ordinary shares under the EMI plan:

| Number of options | Date of Grant | Exercise period | Exercise price pence per share |
|---|---|---|---|
| 6,114,467 | 12 January 2010 | 12 January 2011 to 12 January 2020 | 1.25 |
| 6,114,467 | 12 January 2010 | 12 January 2012 to 12 January 2020 | 1.25 |
| 5,881,134 | 12 January 2010 | 12 January 2013 to 12 January 2020 | 1.25 |
| 4,000,000 | 18 March 2010 | 18 September 2010 to 12 January 2020 | 1.50 |
| 2,000,000 | 18 March 2010 | 18 September 2011 to 12 January 2020 | 1.50 |
| 2,000,000 | 18 March 2010 | 18 September 2012 to 12 January 2020 | 1.50 |
| 2,000,000 | 18 March 2010 | 18 September 2013 to 12 January 2020 | 1.50 |
| 1,254,651 | 29 November 2010 | 29 November 2011 to 29 November 2020 | 1.25 |
| 1,174,651 | 29 November 2010 | 29 November 2012 to 29 November 2020 | 1.25 |
| ` 1,174,650 | 29 November 2010 | 29 November 2013 to 29 November 2020 | 1.25 |
| ` 666,667 | 12 November 2012 | 27 December 2012 to 12 November 2022 | 1.00 |
| 32,380,687 | | | |

## 14 Share based payment

SocialGO plc operates two equity settled share based remuneration schemes for employees: a long term incentive scheme and an unapproved scheme for executive directors, certain senior management and contractors. All employees are eligible to participate in the long term incentive scheme, the only vesting condition being that the individual remains an employee of the group over the savings period.

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Weighted average price (pence) | Number | Weighted average price (pence) | Number |
| Outstanding at the beginning of the period | 3.2 | 60,493,903 | 3.2 | 62,593,835 |
| Granted during the period | 1.0 | 666,667 | 0 | - |
| Exercised during the period | 0 | - | 1.25 | (149,333) |
| Lapsed during the period | 3.1 | (1,265,883) | 3.5 | (1,950,599) |
| Outstanding at the end of the period | **3.2** | **59,894,687** | **3.2** | **60,493,903** |

## 14 Share based payment *(Continued)*

The exercise price of options outstanding at the end of the year ranged between 1.00p and 149.5p (31 December 2011 - 1.25p and 149.5p) and their weighted contractual life was 8.88 years (31 December 2011 - 8.88 years).

Of the total number of options outstanding at the end of the period, 34,620,554 (31 December 2011 - 24,761,450) had vested and were exercisable at the end of the year. The weighted average exercise price of the options outstanding at the end of the year was 3.2p (31 December 2011 – 3.2p).

There were no shares exercised in the current year (31 December 2011 - 149,333).

The weighted average fair value of each option granted during the current year was 1.0p (31 December 2011 - £nil).

## 15 Reserves

| Reserve | Description and purpose |
|---|---|
| Share capital | Amount subscribed for share capital at nominal value. |
| Share premium | Amount subscribed for share capital in excess of nominal value. |
| Merger reserve | Amount of merger relief applied on acquisitions. |
| Retained deficit | Cumulative net gains and losses recognised in the consolidated statement of comprehensive income. |
| Shares to be issued | Nominal value of deferred shares. |

## 16 Related party transactions

Transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are described below.

During the year ended 31 December 2012 the Company entered into an agreement with Catalis SE. As a result of Dominic Wheatley, the then Chairman of SocialGO, being the Chief Executive Officer of Catalis, and Brett Morris, Finance Director of SocialGO, being the Group Finance Manager of Catalis, the Distribution Agreement is deemed to be a related-party transaction under Rule 13 of the AIM Rules for Companies and IAS 24. The Directors of SocialGO, with the exception of Dominic Wheatley and Brett Morris, having consulted with the Company's nominated adviser, consider that the terms of the transaction are fair and reasonable insofar as shareholders are concerned. During the year £211,000 was due from Catalis, £87,000 of which was outstanding at the year end (31 December 2011 - £nil and £nil)

Non-executive directors Alex Halliday and Steve Hardman were two of the three vendors of Get On With It Limited. As part of the acquisition in January 2010 the vendors of Get On With It Limited were granted 23,333,332 1p ordinary shares to be issued between 2011 and 2014. 5,833,333of these shares were issued in the year to 31 December 2012 (31 December 2011 – 5,833,333), 2,763,158 of these shares were issued to Alex Halliday and 2,456,140 to Steve Hardman (31 December 2011 – 2,456,140). The remaining 11,666,666 shares will be issued in the next 12 months 5,526,316 of which will be issued to Alex Halliday and 4,912,280 to Steve Hardman.

Warrants, including those that are deferred, held by Directors at 31 December 2012, totalled 38,743,421 (31 December 2011 – 42,322,369), with Alex Halliday holding 19,817,105 (31 December 2011 - 21,711,842); Dominic Wheatley 700,000 (31 December 2011 - 700,000); Ian Livingstone 500,000 (31 December 2011 - 500,000); and Steve Hardman 17,726,316 (31 December 2011 - 19,410,527).

Post year end, the Group appointed Peterhouse Corporate Finance Limited as co-broker. Oliver Cooke, Chairman of SocialGO plc, serves as a Director of Peterhouse Corporate Finance Limited. As such, Oliver Cooke will not be responsible for agreeing the level of any fees paid to Peterhouse Corporate Finance Limited.

## 17 Licence Commitments

At 31 December 2012 the Group was committed to pay £32,644 (31 December 2011 - £32,644) under licensing agreements.

## 18 Events after the balance sheet date

On 17 April 2013 Northland Capital Partners Limited was appointed as the Group's nominated adviser and broker.

Oliver Cooke joined SocialGO plc as Chairman on 3 May 2013. He has been appointed to the board of the Company with a mandate to assess its current operations and to propose a course of action that will deliver value to its shareholders and we welcome him to the team.

On 24 May 2013 Peterhouse Corporate Finance Limited was appointed as the Group's co- broker.

## 19 Operating lease commitments

At 31 December 2012 the Group had the following operating leases commitments:

| | 31 December 2012 £'000 | 31 December 2011 £'000 |
|---|---|---|
| Land and buildings | | |
| Between one and five years | - | 74 |

**SocialGO plc**

**Company balance sheet at 31 December 2012under UK GAAP**

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Company number 05066489

| | Note | Company 31 December 2012 £'000 | Company 31 December 2012 £'000 | Company 31 December 2011 £'000 | Company 31 December 2011 £'000 |
|---|---|---|---|---|---|
| **Fixed Assets** | | | | | |
| Intangible assets | III | | **-** | | - |
| Investments | IV | | **395** | | 1,075 |
| | | | **395** | | 1,075 |
| **Current assets** | | | | | |
| Debtors | V | **10** | | 526 | |
| Cash at bank and in hand | | **2** | | 253 | |
| | | **12** | | 779 | |
| **Creditors: amounts falling due within one year** | VI | **65** | | 58 | |
| **Net current assets** | | | **(53)** | | 721 |
| **Total assets less current liabilities** | | | **342** | | 1,796 |
| **Capital and reserves** | | | | | |
| Called up share capital | VIII | | **7,277** | | 7,194 |
| Share premium account | | | **11,512** | | 11,512 |
| Merger reserve | | | **722** | | 722 |
| Retained losses | | | **(19,286)** | | (17,807) |
| Shares to be issued | | | **117** | | 175 |
| **Shareholders' funds** | | | **342** | | 1,796 |

The financial statements were approved by the Board and authorised for issue on 6 June 2013.

Brett Morris
**Finance Director**

The notes on pages 53 to 59 form part of these financial statements.

## I Accounting policies

The principal accounting policies applied are summarised below.

*Basis of preparation*

The financial statements have been prepared under the historical cost convention and are in accordance with applicable UK accounting standards.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied throughout the current and prior period unless otherwise stated.

*Going concern*

As detailed in note 1 to the consolidated financial statements on page 28 onwards, the Board continually monitors the financial position of the Company, taking into account the latest cash flow forecasts and the ability of the Company to generate cash.

The Board has prepared the financial statements on a going concern basis having given consideration to forecast sales and the marketability of SocialGO for the foreseeable future.

Given the level of paid subscription taken up since commercial launch, the Board believe its most recent sales forecasts, which incorporate modest growth in paid subscriptions to SocialGO, to be achievable. There remains an inherent uncertainty in the level or timing of growth that will actually be achieved. The forecasts include the receipt of HMRC tax credits. The Board are confident that any shortfall or delay in forecast growth in revenues or in the receipt of the tax credits, were this to happen, could be mitigated by actual and planned reductions in the Company's cost base to ensure that the Company will have sufficient working capital to operate as a going concern for the foreseeable future.

The Board therefore believe that it is appropriate to draw up the financial statements on a going concern basis.

The financial statements do not include any adjustments that would result if the going concern basis of preparation were to become no longer appropriate.

*Externally acquired intangible assets*

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Intellectual Property – 3-5 years straight line

*Valuation of investments*

Investments held as fixed assets are stated at cost less any provision for impairment in value. A provision for impairment was made in the year following the impairment of goodwill in the Group.

## I Accounting policies *(Continued)*

*Share based payments*

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement on a straight line basis over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received. If it is not possible to identify the fair value of these goods or services provided, the income statement is charged with the fair value of the options granted.

Fair value is calculated using the Black-Scholes model.

Where equity instruments are issued by the Company in respect of services received by a subsidiary undertaking, this is treated as a capital contribution and included in the cost of the investment in the subsidiary, unless otherwise reimbursed, or due to be reimbursed, by the subsidiary undertaking.

*Deferred taxation*

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

## II Loss for the financial period

SocialGO plc has taken advantage of the exemption allowed under s408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The Company's loss for the period is £1,541,000 (31 December 2011 - £1,175,000 loss), this includes £680,000 for impairment of investments (31 December 2011 - £nil).

## III Intangible assets

| | Intellectual property £'000 | Total £'000 |
|---|---|---|
| ***Cost*** | | |
| Balance at 1 January 2012 and 31 December 2012 | **19** | 19 |
| ***Amortisation*** | | |
| Balance at 1 January 2012 and 31 December 2012 | **19** | 19 |
| ***Net book value*** | | |
| At 31 December 2012 and 31 December 2011 | **-** | - |

## IV Fixed asset investments

*Subsidiary undertakings*

| | 31 December 2012 £'000 | 31 December 2011 £'000 |
|---|---|---|
| **Cost** | | |
| Balance at 1 January 2012 | **3,191** | 3,191 |
| Balance at 31 December 2012 | **3,191** | 3,191 |
| **Provisions** | | |
| Balance at 1 January 2012 | **(2,116)** | (2,116) |
| Provision for year | **680** | - |
| Balance at 31 December 2012 | **(2,796)** | (2,116) |
| **Carrying value of investments** | **395** | 1,075 |

## IV Fixed asset investments *(Continued)*

The opening balance relates to Bright Entertainment Limited (£1,000,000), PushPlay Interactive (£1,112,000), the acquisition of 100% of the voting equity instruments of CommonWorld Ltd on 27 December 2007 (£414,000) and to the acquisition of Get On With It Limited (£665,000).

The following were subsidiary undertakings at the end of the period:

| Name | Country of incorporation or registration | Proportion of voting rights and ordinary share capital held | Nature of business |
|---|---|---|---|
| SocialGO Development Limited | England & Wales | 100% | Trading company |
| Bright Things International Limited | England & Wales | 100% | Holding company |
| Bright Things Inc | USA | 100% | Trading company |
| PushPlay Interactive LLC | USA | 100% | Trading company |
| CommonWorld Limited | England & Wales | 100% | Trading company |
| Get On With It Limited | England & Wales | 100% | Trading company |

For all undertakings listed above, the country of operation is the same as its country of incorporation or registration.

Bright Things Inc. is 100% owned by Bright Things International Limited.

SocialGO plc took advantage of the merger relief provisions under s131 Companies Act 1985 when it issued equity shares on a share for share basis to acquire a 100% interest in SocialGO Development Ltd, PushPlay Interactive LLC and CommonWorld Limited.

SocialGO plc took advantage of the merger relief provisions under s612 Companies Act 2006 when it issued equity shares on a share for share basis to acquire a 100% interest in Get On With It Limited.

## V Debtors due within one year

| | 31 December 2012 £'000 | 31 December 2011 £'000 |
|---|---|---|
| Debtors - Amounts owed by subsidiary undertakings | **-** | 459 |
| Debtors – Unpaid shares (note VIII) | **-** | 15 |
| Debtors - Deposits | **-** | 17 |
| Other debtors - VAT | **4** | 12 |
| Prepayments | **6** | 23 |
| | **10** | 526 |

## VI Creditors: amounts falling due within one year

| | 31 December 2012 £'000 | 31 December 2011 £'000 |
|---|---|---|
| Amounts owed to subsidiary undertakings | **26** | 29 |
| Trade creditors | **35** | 25 |
| Accruals | **4** | 4 |
| | **65** | 58 |

## VII Auditors' remuneration

| | | 31 December 2012 £'000 | 31 December 2011 £'000 |
|---|---|---|---|
| Auditors' remuneration | - audit services | **18** | 22 |
| | - non-audit services - interim review | **1** | - |
| | - non-audit services - taxation | **-** | 2 |
| | | **19** | 24 |

## VIII Share capital and reserves

Details of the Company's share capital and the movements in the year can be found in note 13 to the consolidated financial statements, on page 45 onwards.

| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Retained losses £'000 | Shares to be issued £'000 | Shareholder funds £'000 |
|---|---|---|---|---|---|---|
| **31 December 2011** | **7,194** | **11,512** | **722** | **(17,807)** | **175** | **1,796** |
| Share based payment charge | - | - | - | 62 | - | 62 |
| Issue of shares – acquisition of Get On With It Limited | 58 | - | - | - | (58) | - |
| Issue of shares – broker fees consideration | 25 | - | - | - | - | 25 |
| Loss before and after tax | - | - | - | (1,541) | - | (1,541) |
| **31 December 2012** | **7,277** | **11,512** | **722** | **(19,286)** | **117** | **342** |

## IX Share options

*Unapproved Share Options*

Details of the unapproved share options outstanding at 31 December 2012 in respect of the ordinary shares under option agreements entered into by the Company can be found in note 13.

*EMI Plan*

Details of the EMI share options outstanding at 31 December 2012 in respect of the ordinary shares under option agreements entered into by the Company can be found in note 13.

## X Events after the balance sheet date

Details of the post balance sheet events can be found in note 18 on page 50.

## XI Related party transactions

Details of the related party transactions can be found in note 16 on page 50.

The Company has exercised the exemption provided under FRS 8 in respect of wholly-owned subsidiaries.

## XII Operating lease commitments

At 31 December 2012 the Company had the following operating leases commitments:

| | 31 December 2012 £'000 | 31 December 2011 £'000 |
|---|---|---|
| Land and buildings | | |
| In one year or less | - | 60 |
| | - | 60 |

**SocialGO plc**

**Advisers**

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| | |
|---|---|
| **Registrars** | Share Registrars Limited<br>Suite E – First Floor<br>9 Lion and Lamb Yard<br>Farnham<br>Surrey GU9 7LL |
| **Nominated Adviser and Broker** | Northland Capital Partners Limited<br>60 Gresham Street<br>London EC2V 7BB |
| **Co- Broker** | Peterhouse Corporate Finance Limited<br>31 Lombard Street<br>London EC3V 9BQ |
| **Solicitors** | Faegre Baker Daniels LLP<br>7 Pilgrim Street<br>London EC4V 6LB |
| **Bankers** | The Royal Bank of Scotland<br>13 Market Place<br>Reading<br>Berks RG1 2EP<br><br>Barclays<br>27 Soho Square<br>London W1D 3QR |
| **Independent Auditors** | BDO LLP<br>55 Baker Street<br>London W1U 7EU |