fitbug holdings plc

Annual Report 2016

Company Information

DIRECTORS	D Stewart A Gudmundson M Ollila H Steiger R Goodlad
COMPANY SECRETARY	Filex Services Ltd No1 London Bridge London SE1 9BG
REGISTERED NUMBER	04466195
REGISTERED OFFICE	6th Floor, Kildare House 3 Dorset Rise London EC4Y 8EN
TRADING ADDRESS	41 Corsham Street London N1 6DR
REGISTRARS	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen B63 3DA
INDEPENDENT AUDITOR	Hazlewoods LLP Windsor House Bayshill Road Cheltenham GL50 3AT
SOLICITORS	Hewitson Moorhead 3 Dorset Rise London EC4Y 8EN

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Chairman & Chief Executive Statement

Overview

2016 has been dominated by the Group's continued focus on implementing its turnaround strategy. We have witnessed encouraging progress, which has involved concentrating our resources on providing digital wellness solutions to the corporate sector through our key partners.

In light of the Group's new strategy, first announced at the end of 2015, we regard Fitbug's financial performance in 2016 as an improvement over 2015 in certain important areas. During the year B2B sales have increased to 82% of the Group's revenues and the Group has achieved significant aggregate operating costs savings of over 30% compared with aggregate operating costs incurred in 2015, and with operating losses for the year reduced by 42%.

Otherwise Fitbug's financial performance in 2016 is what might be expected in a year of turnaround and change of commercial direction.

Revenues for the year at £1.1m are slightly behind 2015 (£1.26m). Sales started strongly in the first half of 2016. The second half illustrated that when dealing with major corporate organisations the path to sales is long with many twists and turns. The lower revenues in the second half can be largely attributed to unanticipated delays in the implementation of their plans by a small number of major customers.

In spite of that the Board is satisfied that the new course for the business has been set. Although sales of devices remained a significant part of the Group's revenues in 2016, recurring service revenues also started to accumulate during the year. This is an important green shoot illustrating and underpinning the changing nature of the Group's business. Ultimately recurring service revenues will form the bedrock of the Group's income.

Most significantly during the year the Group's change of direction was fully endorsed by the Kirsh Group, which through NW1 and Kifin remains our largest shareholder and long term lender, as Fitbug successfully raised £2.61m in cash from them and other investors and converted £8.4m of their long term debt into equity in July 2016.

Business Transformation

Much has changed at Fitbug during 2016.

We started the year by settling our litigation with Fitbit. It had become clear that pursuing matters further was a distraction to Fitbug's business and that, given our new strategy, was not where the future of Fitbug lay.

We had some encouraging sales in the first half, particularly to a large corporate customer.

In the second half we witnessed considerable interest in the Group's products as we engaged with many new potential corporate customers and potential commercial partners including outsourcing and benefits groups, financial institutions, consultancies, retailers, and on-line service providers. But as commonly happens with large corporate customers, their health and wellness plan deployments were delayed or slowed resulting in lower sales in the second half than the Board had expected.

As part of our root and branch restructuring of the Group during 2016 the number of permanent staff has been reduced by two-thirds and, in order to allow remaining staff to focus clearly on core business issues, much of our support functions, including finance, payroll, IT support and HR, have been outsourced. Unfortunately as part of this process we have had to say farewell to many Fitbug "lifers". However, we have also said hello during the year to some highly talented new blood rising to the challenges of our new business direction. We now have a substantially smaller, more focused and more experienced team.

Our digital wellness platform has been further developed and rolled out with paying customers both internationally and at home in the UK. Our commercial website has also been completely rewritten and renewed.

In the second half of the year we created a new development team in Bulgaria where we can find the talented people we need to help us to keep developing our digital offering.

In December 2016 we announced that we have started working with Olympic gold medallist Sally Gunnell OBE. By combining Sallys' workplace wellbeing programmes and strong corporate network with Fitbug's digital platform this arrangement has already resulted in a number of new customer opportunities for the Group and has borne fruit with our successful MTR Crossrail case study and a contract with a major consumer goods company.

Financial Summary

Fitbug's financial results for the year ended 31 December 2016 show revenues of £1,077,000 (31 December 2015: £1,259,000) and a loss after tax of £3,536,000 (31 December 2015: loss £6,303,000). Fitbug's cash balance at 31 December 2016 was £23,000 (2015: £698,000).

On 25 July 2016 the Group raised £2,611,066 by way of a placing and open offer, underwritten by NW1, issuing 613,916,438 new ordinary shares at 0.25p per share to raise £1,534,791 and new loan notes for the balance of £1,076,275. In addition £8.4m of debt was converted into 336,000,000 ordinary shares issued at 2.5p per share. The new loan notes have transferrable rights to subscribe for up to £1,076,275 of Fitbug ordinary shares at 0.25p per share for 5 years provided exercise does not result in the holder or any person with whom the holder is acting in concert (as defined in the City Code) holding, in aggregate, over 49.9% of the then issued share capital.

Outlook

Following the period end Fitbug successfully raised a further £1m through a placing of 500m new ordinary shares at 0.2 pence per share on 25 January 2017.

We have also announced a number of new contracts with a variety of corporate customers including a global financial services company, a consumer goods company and a successful case study with MTR Crossrail.

Chairman & Chief Executive Statement

- continued

We are currently experiencing healthy interest in the Group's products with a continuous flow of enquiries and conversations with direct and indirect customers. Many of these customers are household names and the Board is in no doubt that corporate interest in health and wellness is growing. The Directors believe that this is an idea whose time has come.

In our ongoing relationships with our existing partners and in working with new direct customers we are continually reviewing how to accelerate our route to market and improve our value proposition. To support this effort obtaining continuous feedback is an important part of the way we work.

The Board remains mindful, as always, that the road to conversion of many of these potential customers from first contact to sales is long. As a result the Group's needs for further development capital, particularly to expand its bandwidth to deal with the many potential opportunities which it is currently experiencing, continue as the sales process continues to develop.

Donald Stewart, Chairman, Fitbug Holdings plc
Anna Gudmundson, Chief Executive, Fitbug Holdings plc
30 March 2017

Current Directors

Donald Stewart
Chairman
Appointed in November 2015, Donald is a solicitor and has practiced corporate law, particularly focused on smaller quoted companies, for almost 30 years. He is also a non-executive director of Bagir Holdings Limited, the AIM quoted tailoring company. Between April 2013 and July 2015 he was on the board of Progility Plc and, before that, had been a corporate partner in the London office of a global law firm. He is a former director (and past chairman) of the Quoted Companies Alliance, the UK not-for-profit organisation dedicated to promoting the cause of smaller quoted companies.

Anna Gudmundson
Chief Executive Officer
Anna was appointed in August 2015, having been a part time consultant with the company. Prior to joining Fitbug she ran her own product consultancy focused on the mobile, software, online products, and big data sectors where she advised on product and business related matters such as positioning, price models, technology, process, team, and consumer behaviour, having been Head of Services at Vertu following experience gained at Lucent technologies, Alcatel Lucent, AdIQ and MePlease. Anna brings over 10 years of management experience in the technology sector specialising in digital services and ranging from start-ups to blue chip companies.

Richard Goodlad
Chief Financial Officer
Richard joined Fitbug as COO in April 2016 and was appointed CFO in December 2016. Having started his career at Siemens, Richard was appointed by GE Capital as CFO of Dione Limited, which grew from a turnover of £12.2m to £40m and was successfully sold to Lipman Electronic Engineering for US$ 120m in 2004. He then became CFO of Blue Hackle Group where he migrated the business to the US following the sale of 48% to a US private equity fund in 2010. Prior to joining Fitbug he was CFO of Serverbase Group Limited and then COO of Miura Systems Limited, which he built from a virtual start-up, with few active clients, into a major global supplier with a turnover exceeding US$ 33m per annum in two years.

Dr. Mark Ollila
Non-Executive Director
Mark was appointed as a Director in January 2016. Based in San Diego, he is currently Chief of Staff and General Manager of the Innovation and New Products group at Verve Wireless. Prior to this he was at Nokia where he held a variety of senior roles. An industry leader in mobile media and technology, Mark is a member of Southern California's start-up incubator EvoNexus's selection committee and an expert in residence at UC Irvine's Applied Innovation. He also serves as an advisor to multiple companies in entertainment, games and new technology.

Heidi Steiger
Non-Executive Director
Heidi has significant experience on boards of public and private companies. Heidi has held executive management roles in a range of sectors including financial services, media and investment management. Until April 2015, she was Eastern Region President of the Private Client Reserve of US Bank, the fifth largest commercial bank in the USA. Prior to that, Heidi had been an advisory director at Berkshire Capital Securities, President of Worth Magazine and President of Lowenhaupt Global Advisors, LLC. These roles followed 18 years as Executive Vice President at Neuberger Berman, directly responsible for the wealth management business, having started her career at Fidelity Management Group. She also serves, or has served, on the boards of Aviva USA, Nuclear Electric Insurance Ltd., CIFG Holding Ltd and Eaton Vance mutual funds.

Advisers

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04466195

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Solicitors
Hewitson Moorhead
3 Dorset Rise
London EC4Y 8EN

Report of the Directors

for the year ended 31 December 2016

The directors present their report together with the audited financial statements for the year ended 31 December 2016.

Principal activity

The Group's principal activity lies in developing and marketing innovative products and services in the global health and wellness sector.

Results and dividends

The results of the Group for the year ended 31 December 2016 are set out on page 16 and show a loss for the period of £3,536,000 (2015: £6,303,000). The directors do not recommend the payment of a dividend (2015 – £nil).

Financial instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are contained in note 25 of the financial statements.

Substantial shareholders

On 31 December 2016 the following shareholders held an interest of 3% or more of the ordinary share capital of the Company:

	Ordinary shares of 1p	% of issued share capital
NW1 Investment Ltd*	506,000,000	41.09%
Rock (Nominees) Limited	107,269,573	8.71%
Hargreaves Lansdown (Nominees) Limited	81,199,231	6.59%
TD Direct Investing Nominees (Europe) Limited	70,156,394	5.69%
Kifin Limited	70,000,000	5.68%
Barclayshare Nominees Limited	63,927,089	5.19%
HSDL Nominees Limited	50,166,080	4.07%
Pershing Nominees	48,299,860	3.92%

* NW1 has transferrable rights to subscribe for up to £1,076,275 of Fitbug ordinary shares at 0.25p per share exercisable until 25 July 2021 provided such exercise does not result in the holder or any person with whom the holder is acting in concert (as defined in the City Code) holding, in aggregate, over 49.9% of the then issued share capital of the Company.

As at 31 December 2016 no other person had reported an interest of 3% or more in the Company's ordinary shares.

During the period between 31 December 2016 and 30 March 2017 the Group did not receive any notifications under Chapter 5 of the Disclosure and Transparency Rules.

Directors

The directors who held office during the year were as follows:

		Appointed	Retired
D Turner	Non-Executive		29 June 2016
A B H Fisher	Non-Executive		29 June 2016
T Tarr	Non-Executive	29 June 2016	8 November 2016
A Gudmundson	Executive		
D Stewart	Non-Executive		
R Goodlad	Executive	8 November 2016	
H L Steiger	Non-Executive	8 November 2016	
M Ollila	Non-Executive	11 January 2016	

R Goodlad and H Steiger, each having been appointed since the 2015 Annual General Meeting held in 2016, offer themselves for election at the forthcoming Annual General Meeting.

The Board was chaired by Donald Stewart and Anna Gudmundson was Chief Executive of the Company throughout the period. Tyler Tarr was Chief Financial Officer from 29 June until 8 November 2016 when Richard Goodlad became Chief Financial Officer. Mark Ollila became a non-executive director on 11 January 2016. Both David Turner and Allan Fisher resigned as non-executive directors on 29 June 2016. Heidi Steiger was appointed a non-executive director on 8 November 2016.

Report of the Directors - continued

Statement of compliance with the Corporate Governance Code
As a company quoted on the Alternative Investment Market (AIM) of the London Stock Exchange, the Company is not required to comply with the UK Corporate Governance Code. However, the Board is committed to achieving high standards of corporate governance and the Group uses the requirements of the UK Corporate Governance Code as an indicator of best practice. The Directors are committed to ensuring appropriate standards of Corporate Governance are maintained by the Group and this statement sets out how the Board has applied those requirements in its management of the business during the year ended 31 December 2016.

The Board recognises its collective responsibility for the long term success of the Group. It assesses business opportunities and seeks to ensure that appropriate controls are in place to assess and manage risk. The Board agrees and monitors the progress of a variety of Group activities. These include strategy, business plan and budgets, acquisitions, major capital expenditure and consideration of significant financial and operational matters. The Board also monitors the exposure to key business risks and considers legislative, environmental, employment, quality and health and safety issues.

During a normal year there is a minimum of ten scheduled Board meetings with other meetings being arranged at shorter notice as necessary. During the period, there were 13 meetings of which 6 were fully attended, and 7 with a quorum. The Board agenda is set by the Chairman in consultation with the other Directors. The Board has a schedule of matters reserved to it for decision.

Under the provisions of the Company's Articles of Association all Directors are required to offer themselves for re-election at least once every three years. In addition, under the Articles, any Director appointed during the year will stand for election at the next following annual general meeting, ensuring that each Board member faces re-election at regular intervals.

All of the Directors have access to the advice and services of the Company's legal counsel.

Board Committees
The Board has two principal standing committees: the Audit Committee and the Remuneration Committee, each with specific terms of reference.

Audit Committee
During the period the Audit Committee has comprised Donald Stewart (Chair), Allan Fisher (until 29 June 2016), Heidi Steiger (from 8 November 2016) and Mark Ollila (from 11 January 2016).

It meets a minimum of twice a year, has written terms of reference and its remit is to review the annual and interim accounts and the appropriateness of accounting policies, to review the internal controls and financial reporting, and to make recommendations on these matters to the Board. It also considers the appointment and fees of the external auditor, the resulting auditor reports and discusses the action taken on problem areas identified by Board members or in external audit reports. The Chairman of the Audit Committee reports the outcome of the Audit Committee meetings to the Board and the Board receives the minutes of all Audit Committee meetings.

Remuneration Committee
The Remuneration Committee during the period comprised Donald Stewart, Mark Ollila (from 11 January 2016), David Turner (until 29 June 2016) and Heidi Steiger (from 8 November 2016). It was chaired by David Turner (until 29 June 2016) and thereafter by Donald Stewart. It meets a minimum of twice a year. Its remit is to assess the performance of the Executive Directors and to consider and make recommendations to the Board on remuneration policy for Executive Directors and Senior Managers of the required calibre.

Report of the Board of Directors on remuneration
The terms of reference of the Remuneration Committee are to review and make recommendations to the Board regarding the terms and conditions of employment of the executive and operational Directors, including any proposed allocations of share options under the Company's share options schemes and other benefits. The remuneration of the Non-Executive Directors is fixed by the Board as a whole. In framing its remuneration policy, the Remuneration Committee has given full consideration to the matters set out in the UK Corporate Governance Code.

Remuneration Policy
The Remuneration Committee has been actively involved in assessing salary levels for Directors and implementing the Company's share option schemes. The remuneration policy is determined by a number of factors including individual performance, the need to attract, motivate and retain Directors and other senior employees and remuneration levels in comparative companies.

Remuneration
The amounts of remuneration for each Director are in note 10 below. These include basic salary, bonus and the estimated monetary value of benefits in kind.

Directors interests

The beneficial interests of the directors of the Company in the ordinary share capital of the parent company and options to purchase such shares under the Company's Share Options Schemes were:

	Ordinary shares			
	31 December 2016		31 December 2015	
Director	Shares	Options	Shares	Options
D Stewart (held indirectly)	2,000,000	14,776,404	-	-
A Gudmundson	2,400,000	55,411,514	-	-
A B H Fisher*	n/a	n/a	10,890,000	-
D Turner*	n/a	n/a	12,514,999	-
T Tarr	2,000,000	11,082,303	n/a	n/a
R Goodlad	-	11,082,303	n/a	n/a
M Ollila	2,000,000	11,082,303	n/a	n/a
H Steiger	-	-	n/a	n/a

Note: Both David Turner and Allan Fisher retired from the board on 29 June 2016.
Tyler Tarr retired from the board on 8 November 2016.

The market price of the shares on 31 December 2016 was 0.17p (2015: 0.95p) and the range during the financial period was 0.17p to 0.975p (2015: 0.850p to 9.375p). Details of directors' interests in the transactions of the Group are given in notes 20 and 27.

Persons connected with David Turner have an interest in 6,290,000 ordinary shares representing 2.23% of the issued share capital of the company as at 31 December 2015.

Persons connected with Alan Fisher have an interest in 6,290,000 ordinary shares representing 2.23% of issued share capital of the company as at December 2015.

Going concern

The directors consider that taking into account expected improvements in the Group's trading and subject to the Company being able to raise sufficient funds to meet its forecast requirements for the next 12 months the Group will have adequate resources and borrowing facilities to continue in operational existence for the foreseeable future. Consequently, they have continued to adopt the going concern basis in preparing the financial statements. The directors however draw attention to uncertainties in this regard as explained in note 2 to the Financial Statements.

Matters covered in the Strategic Report

As permitted by Paragraph 1A of schedule 7 to the Large and Medium-sized Companies and Groups (Account and Reports) Regulations 2008 certain matters which are required to be disclosed in the Director's Report have been omitted as they are included in the Strategic Report instead. These matters related to business review, principal risks and uncertainties and financial key performance indicators.

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 Company'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 relevant audit information of which the auditors are unaware.

Hazlewoods LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the annual general meeting.

By order of the Board

Anna Gudmundson
Chief Executive Officer
30 March 2017

Group Strategic Report

The Directors present their Strategic Report Fitbug Holdings PLC (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2016.

Business review

In 2016 we implemented a significant portion of our plan to turn the business around and to reposition Fitbug as a B2B digital services provider focused on corporate wellness. In practice this involved completing a series of restructuring initiatives breaking with Fitbug's past and enabling the business to set sail in new directions.

With a new management team in place we made a series of changes which led to redundancies both to cut costs but, more importantly, to set new expectations and processes. We outsourced many support activities to allow the business to focus on core activities. We set up a new development team in Bulgaria in order to access appropriate talent and make digital development more efficient. We also raised an additional £2.6m of cash for investment in the business.

Our headline results do not betray the amount of activity which has gone into achieving them. Despite operating in an almost entirely new market with a wholly new business model we managed to achieve revenues for the year of almost £1.1m. In 2016 we have witnessed the economic acorn for future growth: the Group's first sight of recurring service revenues. This is the foundation on which the future of the business will be built.

During the year we renewed contracts with a number of clients across the globe and are continuing to work with them and other major enterprises on long-term digital wellness rollout plans. We have also recently won new customers in the UK through our strategic partnership with Sally Gunnell OBE. As we grow our client base, revenues will become less variable and instead will become more focused on predictable monthly fees.

During 2016 we reached the following main objectives:

- Shifted the business from retail devices to corporate digital wellness
- Proved the opportunity in the corporate wellness market
- Raised a total of £2.61m in cash
- Reduced long term debt by £6.8m
- Dramatically reduced our losses before tax from -£6.3m to -£3.5m
- Closed down our loss-making retail operations and
- Outsourced development to access additional talent and other support functions to drive efficiencies

In summary, having successfully brought a digital corporate wellness product to market in an extremely short space of time, in 2016, the Group rolled it out to paying customers while simultaneously maturing and better refining the proposition to meet market needs and raising additional working capital.

The adjusted revenue for full year ending 31 December 2016 was £1.1m. This is £160k less than revenue for 2015. The period under review witnessed a significant increase in corporate sales in the revenue mix. The second half of the year has also brought Sally Gunnell on board as an additional partner while the Group has also developed a direct-to-corporate sales strategy which it is currently implementing. While the Group's restructuring has taken its toll on the Group's cash resources, with Fitbug's additional sales tools and focus on refining how we move faster with existing partners, the Directors believe that long term business growth looks positive.

New Partnership

We established a new strategic partnership in the second half of 2016, when we joined efforts with the Corporate Wellbeing team of Sally Gunnell, OBE in the UK. Sally has leveraged her experience as an elite athlete, her passion for wellbeing and her success as a writer and motivational speaker into her own corporate wellbeing programme. With Fitbug's scalable digital platform enhanced by Sally's expertise and client portfolio, we have initiated a number of new business opportunities, which are already converting into revenue.

Improved Balance sheet

We started 2016 with £9.3m of mid and long term debt on our balance sheet but we have ended the year with a much improved debt burden of £1.9m through conversion of debts to equity. As a result of our new strategy and client successes we were able to reduce our debt and raise new funds. We have been using the additional working capital to complete the execution of the Group's turnaround strategy and to increase sales, which is our main focus for 2017.

Our team

We now have an experienced team in place to grow the digital business in corporate wellness which is not only accelerating our ability to deliver, but is also providing improved quality across all areas of the business. We do not intend to increase the team size in any significant way during 2017.

We are working with a team of developers based in Bulgaria, who combine an excellent skills base with improved operational efficiency. We are finding it much easier to recruit the necessary experience and talent in this region.

We have similarly outsourced support for finance and payroll processing, IT support, marketing communications and HR and benefits, mostly from specialist support at lower costs, making it possible to maintain a small core management team as permanent headcount.

The benefits from the cost savings from the restructuring in 2016 are expected to have a positive impact into the first half of 2017, with the Group making up to 30% savings in personnel costs in comparison with the first half of 2016.

Looking forward

Business Development

Our strategic partnerships yielded the majority of our 2016 revenues. As we continue working with our established partners we are constantly reviewing how we can accelerate our route to market, improve our joint value proposition and ensure we have more clients who want to come back for more.

We have started 2017 with a strong pipeline of quality prospects but, in order to secure more customers, additional revenue streams and a stronger business, we are embarking on a direct-to-corporate sales programme. This will allow Fitbug to focus on creating a greater number of good quality business leads both in the short and longer term. Nevertheless the Board remain aware of the length of time it takes to turn such leads into measurable revenues.

The Group's focus remains on English speaking territories, with a clear and defined target audience of larger enterprises. We continue to leverage our strategic partnerships globally, as well as to sell direct to major corporations in the UK, with a view to expanding to other markets when cash flow is further improved.

Retention – client satisfaction
As the Group grows its service revenues, which are fundamental to the shape of our growth curve, it needs to secure client contract renewals. Genuine client satisfaction is an increasingly important focus for the business.

On-going product evolution and innovation
In order to remain competitive the Group continues to employ R&D to evolve its digital service offering on an ongoing basis. In addition Fitbug reviews usage data and assesses client and user engagement and satisfaction to assist with informed decision making about future development.

Key Performance Indicators
In monitoring the performance of the business, the executive management team uses a number of KPIs including:

- Sales, sales conversion and sales cycle time;
- Cash flow and cash conversion cycle;
- Customer engagement statistics;
- Customer profitability; and
- Customer service response time, first response resolution percentage and support rating from our customers

For forward looking performance measurement, the Board monitors the various current engagements with new business prospects, and the level and speed of their progress.

Principal risks and uncertainties
The board places a high emphasis on being risk aware. We continuously track risks and uncertainties that can impact the performance of Fitbug, some of which are beyond the control of the Group. These are reviewed at monthly board meetings where the Group's performance is assessed against budget, forecast and prior year, and key performance indicators are used to benchmark the Group's performance. This enables the board to determine and mitigate the Group's risk environment, which includes;

Commercial risks
Demand for Fitbug's products and services in the B2B sector depends on the demand for health and wellness products by medium and large sized employers. In turn, this is driven by a variety of geographic, political and socio-economic factors. For example, there is currently a high demand in the USA for products such as the Group's digital wellness platform, where there is widespread awareness and acceptance of wearable trackers, and a recognition of high levels of obesity and economic pressures to reduce health insurance premiums. Over time, these drivers of local market conditions will change.

Also the market for products and services in the health and wellness sector is highly competitive. Several factors affect this, including the number of competitors; the availability of stock; the development of new features and functionality in the Group's digital services; and the availability of alternative products.

Against this backdrop, Fitbug looks to mitigate impacts on sales by ensuring low-cost stock acquisition, continuous investment in developing high-performing, innovative digital services, as well as supporting customers with high quality aftersales service and short delivery times.

IT Systems
The Group relies heavily on high-performing, uninterrupted internet and IT resources. Our business model is predicted on the complex integration of a variety of wearable trackers, the Group's website, our software platform and Kiqplan. This means that operational problems such as server or system failures, network downtime, software performance issues or power outages could result in users being unable to access the Group's online services. In turn, this may result in reputational loss. The Company relies on world-class service providers performing against stringent Service Level Agreements to reduce the level of risk to its operations and its ability to provide continuous service.

Intellectual Property
The Group's business, IT systems, bespoke software and intellectual property are not protected by patents or registered design rights. This means that the Group cannot inhibit competitors from entering the same market if they develop similar technology independently.

Human Resources
The Group relies on its key management and staff to operate and expand its business. Our reliability to recruit, retain and motivate suitably qualified and experienced staff is central to our future success. There is strong competition for talent in our sector, so we prioritise the need to provide high-quality roles, a stimulating environment and exciting career paths.

Credit Risks
The Group's credit risk is primarily attributable to its trade debtors. We manage credit risk by running credit checks on new customers and by tight monitoring of payments against contractual arrangements.

Liquidity Risks
The Group monitors cash flow as part of its day to day control procedures. The board regularly assesses cash flow projections and ensures that appropriate resources are available to be drawn on, as necessary.

To manage the working capital needs of the business, and to finance our growth plans, the Group relies on being able to arrange and maintain sufficient financing, and to comply with applicable conditions of relevant facilities once established.

Foreign exchange risk
Foreign exchange rates have seen a period of volatility, due to economic uncertainty and differing economic performances in different

Group Strategic Report - continued

parts of the world. The Group operates a centralised treasury model to mitigate foreign exchange risk. However the Group remains exposed to currencies that may depreciate against the sterling in the future. In addition, fluctuations in interest rates will impact the finance costs of the business. The Group does not currently use derivatives or enter into hedging arrangements.

Research and development

Fitbug has undertaken a substantial development programme to fully integrate its range of online and mobile digital health products. Through the Kiqplan platform, Fitbug is able to provide its customers with instant access to their personalised health and wellness programme. In a highly competitive sector, we recognise the need to continuously update and refine our existing offerings, and commit resources for R&D into innovative products and services.

Employment without discrimination

The Group is committed to employ on the basis of aptitude and ability. We hire and promote our people regardless of gender, orientation, origin, creed, disability or any other inappropriate discrimination.

Employee communication and involvement

The flow of information to staff is maintained by frequent meetings between executive management and staff. Members of the management team regularly discuss matters of current interest and concern to the business with members of staff.

Environmental and social

It is natural that our business, in promoting fitness and wellness, should start with our staff. Every day, we promoted the values of personal health, being active and, by extension, less reliance on transport.

In our day to day business, we commit to comply with applicable environmental laws, and the direct impact of our operations is low. We also look to tread lightly through good housekeeping practices such as reducing energy consumption, using sustainable resources and recycling waste.

Directors, senior managers and employees

At 31 December 2016, there were three male directors and two female directors of the Company.

Approved by the Board of Directors and signed on its behalf by

Anna Gudmundson

CEO and Director of Fitbug Holdings PLC

30 March 2017

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Group Strategic Report, the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare consolidated financial statements for each financial year. Under that law and as required by the AIM Rules of the London Stock Exchange, the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and applicable law. Under company law the directors must not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and group and of the profit or loss of the company and group for that year.

In preparing these consolidated financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- notify its shareholders in writing about the use of the disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements;
- state whether the group and parent company financial statements have been prepared in accordance with IFRSs as adopted by the European Union; and
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the company and the group 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 consolidated financial statements comply with 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Independent Auditors' Report to the Shareholders of Fitbug Holdings plc

We have audited the financial statements of Fitbug Holdings plc for the year ended 31 December 2016 which comprise the Consolidated Income Statement, Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Company Statement of Financial Reporting, the Consolidated Statement of Cash Flows, the Company Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in the preparation of the Group and Parent Company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of the directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a fair and true view. Our responsibility is to audit 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 and financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

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

Emphasis of matter – going concern

In forming our opinion on the financial statements we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the Parent Company's and the Group's ability to continue as a going concern. The Group incurred a net loss of £3,536,000 during the year ended 31 December 2016 and, at that date, the Group's total liabilities exceeded its total assets by £2,038,000.

The directors have prepared forecasts which suggest that there are sufficient facilities available to meet the Group's short-term funding requirements. The forecasts assume a significant growth in revenues for the current financial year and the requirement for additional fundraising. We are unable to assess whether the growth will occur or the funds will be raised and these matters, as more fully explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Parent Company's and the Group's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the parent company and the group were unable to continue as going concerns.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the financial statements:

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

In the light of our knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Director's Report.

Independent Auditors' Report to the Shareholders of Fitbug Holdings plc

- continued

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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns;
- 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.

Scott Lawrence (Senior Statutory Auditor)
For and on behalf of Hazlewoods LLP, Statutory Auditor

Windsor House
Bayshill Road
Cheltenham
GL50 3AT

30 March 2017

Company number: 04466195

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	**Year ended 31 December 2016 £'000**	Year ended 31 December 2015 £'000
Revenue	5	**1,077**	1,259
Cost of sales		**(749)**	(647)
Gross profit before exceptional items		**328**	612
Exceptional write back of obsolete inventory		**146**	(736)
Exceptional write back of returns provision		**106**	-
Gross profit/(loss)		**580**	(124)
Operating and administrative expenses – normal	6	**(4,134)**	(5,241)
Operating and administrative income/(expenses) – exceptional	7	**49**	(1,162)
Finance income	11	**-**	2
Finance costs	11	**(203)**	(5)
Loss before taxation		**(3,708)**	(6,530)
Income tax	12	**172**	227
Loss for the year and total comprehensive income for the year attributable to equity holders of the parent		**(3,536)**	(6,303)
Loss per share (pence)	23	**(0.01)**	(2.5)

The notes on pages 23 to 44 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2016

	Note	31 December 2016 £'000	31 December 2015 £'000
Non-current assets			
Property, plant and equipment	14	**18**	29
		18	29
Current assets			
Inventories	16	**167**	577
Trade and other receivables	17	**420**	751
Cash and cash equivalents	18	**23**	698
		610	2,026
Total assets		**628**	2,055
Non-current liabilities			
Borrowings	20	**(1,915)**	(8,739)
		(1,915)	(8,739)
Current liabilities			
Trade and other payables	19	**(675)**	(894)
Borrowings	20	**(75)**	(575)
		(750)	(1,469)
Total liabilities		**(2,665)**	(10,208)
Net liabilities		**(2,037)**	(8,153)
Equity			
Share capital	22	**3,764**	2,815
Share premium account	22	**13,543**	4,715
Retained deficit		**(19,344)**	(15,683)
Total equity		**(2,037)**	(8,153)

The consolidated financial statements on pages 16 to 22 were approved by the board of Directors on 30 March 2017 and signed on its behalf by:

Anna Gudmundson
CEO and Director of Fitbug Holdings PLC

The notes on pages 23 to 44 form part of these consolidated financial statements.

Company Statement of Financial Position

as at 31 December 2016

	Note	31 December 2016 £'000	31 December 2015 £'000
Non-current assets			
Investments	15	**1,171**	1,171
		1,171	1,171
Current assets			
Trade and other receivables	17	**62**	72
Cash and cash equivalents	18	**8**	456
		70	528
Total assets		**1,241**	1,699
Non-current liabilities			
Borrowings	20	**(1,915)**	(8,739)
		(1,915)	(8,739)
Current liabilities			
Trade and other payables	19	**(178)**	(50)
Borrowings	20	**(75)**	(575)
		(253)	(625)
Total liabilities		**(2,168)**	(9,364)
Net liabilities		**(927)**	(7,665)
Equity			
Share capital	22	**3,764**	2,815
Share premium account	22	**13,543**	4,715
Retained earnings		**(18,234)**	(15,195)
Total equity		**(927)**	(7,665)

The consolidated financial statements on pages 16 to 22 were approved by the board of Directors on 30 March 2017 and signed on its behalf by:

Anna Gudmundson
CEO and Director of Fitbug Holdings PLC

The notes on pages 23 to 44 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital £'000	Share premium account £'000	Retained deficit £'000	Total equity £'000
Balance as at 1 January 2015	**2,408**	**4,144**	**(9,853)**	**(3,301)**
Loss and total comprehensive income for the year	-	-	(6,303)	(6,303)
Issue of shares	407	609	-	1,016
Costs of raising funds	-	(38)	-	(38)
Share-based payments	-	-	473	473
Balance as at 31 December 2015	**2,815**	**4,715**	**(15,683)**	**(8,153)**
Loss and total comprehensive income for the year	-	-	(3,536)	(3,536)
Issue of shares	949	8,985	-	9,934
Costs of raising funds	-	(157)	-	(157)
Share-based payments			(125)	(125)
Balance as at 31 December 2016	**3,764**	**13,543**	**(19,344)**	**(2,037)**

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

Share capital: Amount subscribed for shares at nominal value.

Share premium: Amount subscribed for share capital in excess of nominal value, less costs of share issue.

Retained deficit: Cumulative realised profits less cumulative realised losses and distributions made, attributable to the equity shareholders of the Group.

The notes on pages 23 to 44 form part of these consolidated financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 January 2015	**2,408**	**4,144**	**(10,291)**	**(3,739)**
Loss and total comprehensive income for the year	-	-	(5,377)	(5,377)
Issue of shares	407	609	-	1,016
Costs of raising funds	-	(38)	-	(38)
Share-based payment	-	-	473	473
Balance as at 31 December 2015	**2,815**	**4,715**	**(15,195)**	**(7,665)**
Loss and total comprehensive income for the year	-	-	(2,914)	(2,914)
Issue of shares	949	8,985	-	9,934
Costs of raising funds	-	(157)	-	(157)
Share-based payment	-	-	(125)	(125)
Balance as at 31 December 2016	**3,764**	**13,543**	**(18,234)**	**(927)**

The notes on pages 23 to 44 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 £'000	2015 £'000
Cash flows from operating activities		
Loss after taxation	**(3,536)**	(6,303)
Adjustments for:		
Depreciation and amortisation	**11**	82
Share-based payments	**(125)**	473
Fx gain loss	**-**	(74)
Fx adjustment on consolidation	**-**	(66)
Finance income	**-**	(2)
Finance expense	**203**	5
Returns provision	**(106)**	216
Write off development costs	**-**	569
Impairment of Stock	**(146)**	736
Cash flows from operating activities before changes in working capital and provisions	**(3,699)**	(4,364)
Decrease in inventories	**556**	206
Decrease in trade and other receivables	**437**	95
Decrease in trade and other payables	**(329)**	(797)
Net cash used in operations	**(3,035)**	(4,860)
Cash flow from investing activities		
Purchase of property, plant and equipment	**-**	26
Development costs capitalised	**-**	(167)
Finance income	**-**	2
Net cash flow from investing activities	**-**	(139)
Cash flow from financing activities		
Issue of ordinary shares for cash	**1,535**	1,015
Costs directly related to issue of shares	**(157)**	(38)
Loan advances	**1,076**	1,300
Finance expense	**(94)**	(5)
Net cash generated from financing activities	**2,360**	2,272
(Decrease)/increase in cash and cash equivalents in the year	**(675)**	2,727
Cash and cash equivalents at beginning of year	**698**	3,425
Cash and cash equivalents at the end of the year	**23**	698

The notes on pages 23 to 44 form part of these consolidated financial statements.

Company Statement of Cash Flows

For the year ended 31 December 2016

	2016 £'000	2015 £'000
Cash flows from operating activities		
Loss after taxation	**(2,913)**	(5,377)
Adjustments for:		
Share-based payments	**(125)**	473
Bad debt provision	**2,547**	0
Finance income	**-**	(2)
Finance expense	**201**	5
Cash flows from operating activities before changes in working capital and provisions	**(290)**	(4,901)
(Increase)/decrease in trade and other receivables	**10**	12
Increase/(decrease) in trade and other payables	**17**	(261)
Net cash used in operations	**(263)**	(5,150)
Cash flow from investing activities		
Inter-company loans	**(2,547)**	-
Finance income	**-**	2
Net cash flow from investing activities	**(2,547)**	2
Cash flow from financing activities		
Issue of ordinary shares for cash	**1,535**	1,015
Costs directly related to issue of shares	**(157)**	(38)
Loan advances	**1,076**	1,300
Loan repayments	**-**	-
Finance expense	**(91)**	(5)
Net cash generated from financing activities	**2,363**	2,272
Decrease in cash and cash equivalents in the year	**(447)**	(2,876)
Cash and cash equivalents at beginning of year	**456**	3,332
Cash and cash equivalents at the end of the year	**9**	456

The notes on pages 23 to 44 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1 General information

Fitbug Holdings PLC (“the Company”) and its subsidiaries (together “the Group”) develops products and services in the health and leisure sectors and has its main centre of operation in the UK.

The company is a public limited company which is listed on the Alternative Investment Market (AIM) of the London Stock Exchange and is incorporated and domiciled in the UK. The address of the registered office is 6th Floor, Kildare House, 3 Dorset Rise, London, EC4Y 8EN.

The registered number of the company is 04466195.

2 Basis of preparation and significant accounting policies

The consolidated financial statements and company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS’s) and International Financial Reporting Interpretation Committee (IFRIC) interpretations as endorsed by the European Union (“IFRS-EU”), and those parts of the Companies Act applicable to companies reporting under IFRS.

These consolidated financial statements have been prepared under the historical costs convention, as modified for the fair value of certain financial instruments.

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Group and the Company will raise sufficient resources to enable them to continue trading for the foreseeable future.

The directors have prepared financial forecasts which are based on the business strategy implemented and proven in 2016, as detailed in the report of the directors on pages 7 to 9, together with new funding, which show there will be sufficient facilities available to the Group for its short-term funding requirements.

The forecasts include significant growth from new customers and the board believe that this income will be achieved. Whilst there is no reason to suggest that the targets cannot be met and exceeded, in common with other businesses, achieving significant growth is not certain.

To support the development of the business and planned growth in 2017, the board consider that it will be necessary to secure further longer term funding and whilst that may be uncertain, they are considering a number of options and believe that they will be able to raise funds when they are required.

The directors therefore continue to adopt a going concern basis for preparing these financial statements, which do not include any adjustments that would otherwise be necessary.

Impact of new standards

At the date of approval of these financial statements, no standards and interpretations were in issue but not yet effective which are expected to have a material impact on the financial statements in the future. There were no standards adopted for the first time in the current financial year which had a material impact on the financial statements.

Profit for the year

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss in these financial statements. Fitbug Holdings plc reported a loss on ordinary activities after tax £2,914,000 for the year ended 31 December 2016 (2015: £5,377,000).

2 Basis of preparation and significant accounting policies (continued)

Basis of consolidation

The Group financial statements consolidate the financial statements of the company and its subsidiary undertakings.

The Group is permitted to apply the provisions of s612 of the Companies Act 2006, concerning merger relief, where applicable. In the event of a share exchange which gives rise to a holdings of more than 90% in a subsidiary company, any premium arising is included in the merger reserve.

Acquired companies have been included in the consolidated financial statements using the purchase method of accounting when the transaction can be identified as a business combination.

Subsidiaries are entities over which the Group has power to govern the financial and operating policies. The cost of investment in a subsidiary is eliminated against the Group's share in the net assets at the date of acquisition. All inter-company receivables, payables, income and expenses are eliminated. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

On disposal of a subsidiary, the consideration received is compared with the carrying cost at the date of disposal and the gain or loss is recognised in the income statement.

Where control of a subsidiary undertaking is lost as a result of the subsidiary issuing equity to a third party or as a consequence of a subsidiary entering into a statutory insolvency arrangement in the results of the subsidiary are excluded from the consolidated income statement from the date that control is lost. The remaining investment in the former subsidiary is classified as an investment, an associate or a joint venture investment in accordance with the terms of the relevant transaction.

Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the acquired entity over the Group's interest in the fair value of the assets, liabilities and contingent liabilities, acquired. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reviewed.

Impairment of Goodwill and other non-financial assets

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 the 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 carries 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). Goodwill is allocated on initial recognition to each of the group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to goodwill. Impairment losses are included in the administrative expenses line item in the consolidated income statement, except to the extent they reverse gains previously recognised in the consolidated statement of changes in equity. An impairment loss recognised for goodwill is not reversed.

Revenue recognition

The Group is involved in the development and sale of products in the wearables sector. Revenue represents the total amount recognised by the Group for goods and services provided to third parties, excluding VAT and similar taxes.

The Group derives its revenue principally from the sale of wearable products and services. Revenue is recognised on delivery.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

2 Basis of preparation and significant accounting policies (continued)

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date and whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the profit and loss on a straight line basis over the lease term.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

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

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the Statement of Financial Position date. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in Other Comprehensive Income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting year, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2 Basis of preparation and significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfer from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of tangible fixed assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probably that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost amounts to their residual values over their estimated useful lives, as follows:

- Property, plant and equipment 3 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting year, with the effect of any changes in estimate accounted for on a prospective basis.

A tangible fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Statement of Comprehensive Income.

Research and development expenditure

Expenditure on research is charged to the income statement in the year in which it is incurred. Development costs are charged to the income statement in the year of expenditure, unless individual projects can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits, specifically demonstrating the existence of a market for the output of the intangible asset or the intangible asset itself, or, if it will be used internally, the usefulness of the intangible asset;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- Its ability to reliably measure the expenditure attributable to the intangible asset during its development.

In such circumstances the costs are carried forward as an intangible non-current asset and amortised over a period not exceeding 3 years commencing in the period the assets are available for use.

The Group uses the straight line method of amortisation and the amount is included in "Administrative expenses" in the Statement of Comprehensive Income.

Valuation of investments

In the Company's financial statements investment in subsidiary undertakings are stated at cost less and permanent diminuition.

Impairment of fixed asset investments

An impairment review of fixed asset investments is conducted annually and any resulting impairment loss is measured and recognised on a consistent basis.

2 Basis of preparation and significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Trade payables are measured at amortised cost using the effective interest method, less any impairment. Interest payable is recognised by applying the effective interest rate, except for short-term payables when the recognition of interest would be immaterial.

Debt for equity swaps

Where equity shares are issued in settlement of outstanding debt, the equity issued is valued at fair value with any difference between the fair value of equity issued and carrying value of debt taken to profit or loss.

2 Basis of preparation and significant accounting policies (continued)

Trade and other receivables

Trade and other receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and are subsequently measured at amortised cost, using the effective interest method. Interest is recognised in the Statement of Comprehensive Income.

Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new share or options are shown in equity as deduction net of tax, before proceeds.

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 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. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period. Where equity instruments are granted to persons other than employees, the income statement is charged with fair value of goods and services received.

Share options that were cancelled during the year have been adjusted for by accelerating the total share option expense and recognised in full in the current year. This treatment has been applied to staff who had options and who were made redundant during the year. Share options forfeited during the year have been adjusted for by reversing the share option expense previously recognised in respect of those options and this has been applied to options where staff have left during the year.

Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The consolidated financial statements are presented in Pounds Sterling (£) which is also the Group's functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Foreign operations

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing at the year end. Revenue and expenditure items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used. Exchange differences arising, are recognised in other comprehensive income and accumulate in equity.

2 Basis of preparation and significant accounting policies (continued)

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the costs of that asset, until such time when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Capitalisation of borrowing costs commences when the expenditure directly attributable to the asset is incurred, when the borrowing costs are incurred and when the activities that are necessary to prepare the asset for its intended use or sale are undertaken.

Any investment income earned as a result of temporary investment of specific borrowings awaiting expenditure on a qualifying asset, is reduced from the amount capitalised.

All other borrowing costs are recognised as an expense in the statement of comprehensive income in the period to which they relate.

3 Critical accounting estimates and judgements

The group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. In the future, actual experience will differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Recognition of assets in respect of product development

The Group's accounting policy is described in note 2 above. The directors have to make key assumptions in relation to the estimated future revenues that will be derived from such expenditure in concluding whether an intangible asset should be recognised.

Share based payments

In order to calculate the charge for share-based compensation as required by IFRS 2, the Group makes estimates principally relating to the assumptions used in its option-pricing model as set out in note 24.

Trade receivables

All customers are credit checked and receive credit rating reviews; a full review of the debtor ledger is carried out to determine if a bad debt provision is required for each balance.

Impairment review

Impairment testing is carried out for all non-current assets at the year end date or where there is an indication that impairment exists. For the purposes of impairment testing, the carrying amounts of the non-current assets are reviewed and an impairment loss is recognised where the carrying amounts exceed the assets recoverable amount.

Useful lives

Depreciation methods, useful lives and residual balances are reviewed at each Consolidated Statement of Financial Position date. The gain or loss arising on the disposal or retirement of a tangible fixed asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Consolidated Statement of Comprehensive Income.

4 Loss per share

The loss per share from continuing and discontinued operations is based on a loss of the year attributable to equity holders of the Parent Company of £2,914,000 (2015 – £5,377,000) and the weighted average number of ordinary shares in issue for the year of 701,905,347 (2015 – 255,510,256).

The exercise of the outstanding options would reduce the loss per share and hence have an anti-dilutive effect.

There were 113,837,413 (2015 – 4,200,000) shares that could potentially be issued under the terms of options as described in note 24 and a further 430,510,000 (2015 – 33,333,334) shares that could be potentially issued under the terms of the convertible loan as discussed in note 20 that will potentially reduce future earnings per share.

5 Analysis of turnover

	2016 £'000	2015 £'000
An analysis of turnover by geographical location is as follows:		
United Kingdom	**314**	1,027
United States	**34**	(18)
Asia and rest of world	**272**	250
EMEA (outside UK)	**457**	-
	1,077	1,259

An operating segment is a distinguishable component of the Group that engages in business activities from which it many earn revenues and incur expenses, whose operating results are regularly reviewed by the Board to make decisions about the allocation of resources and an assessment of performance and about which discrete financial information is available.

The Board has defined that the Group's only operating segment during the period is the development of products and services in the health and leisure sectors. All of the results are allocated to this segment.

6 Loss for the year

	2016 £'000	2015 £'000
The loss for the year has been arrived at after charging:		
Staff costs (note 9)	**1,035**	2,063
Depreciation of plant and equipment	**11**	13
Amortisations of intangible assets	**-**	69
Operating lease rentals – property	**122**	108
Operating lease rentals – other	**-**	6
Auditors' remuneration	**32**	27
Foreign exchange gain	**(24)**	(74)

7 Exceptional items

	2016 £'000	2015 £'000
Share based payment (note 24)	**(125)**	-
Redundancy costs	**76**	-
Legal costs	**-**	594
Write down of development costs		568
	(49)	1,162

8 Auditors' remuneration

	2016 £'000	2015 £'000
Fees payable to the Group's auditors in respect of:		
The auditing of accounts of the Company pursuant to legislation	**19**	19
Audit of the company's subsidiaries pursuant to legislation	**13**	8
Other services in relation to taxation	**6**	4
	38	31

9 Staff numbers and costs

The average monthly number of employees (including executive directors) was:

	2016 No.	2015 No.
Administrative	**10**	5
Development	**4**	9
Sales	**2**	6
Support and project management	**2**	7
Marketing	**1**	-
	19	27

Their aggregate remuneration comprised:

	2016 £'000	2015 £'000
Wages and salaries	**1,078**	1,432
Social security costs	**61**	155
Pension costs	**21**	3
Share based payments	**(125)**	473
	1,035	2,063

10 Remuneration of directors

	2016 £'000	2015 £'000
Emoluments	**296**	418
Highest paid director:		
Emoluments	**192**	123

Director's remuneration above relates to remuneration paid to the directors of the parent Company by any Group company for the periods for which they were directors there. During the year, two directors accrued benefits under defined contribution pension schemes (2015: none).

10 Remuneration of directors (continued)

The directors consider that the key management comprises the directors of the company, and their emoluments are set out below:

	Salary & Fees	Share based payments	Benefits in kind	Pension	**Total 2016**	Total 2015
Executive Directors						
Anna Gudmundson	180	-	1	11	**192**	60
Richard Goodlad	10	-	-	-	**10**	-
Fergus Kee	-	-	-	-	**-**	34
Paul Landau	-	-	-	-	**-**	488
Andrew Bummer	-	-	-	-	**-**	62
Ann Jones	-	-	-	-	**-**	116
Non-Executive Directors						
Donald Stewart	52	-	-	-	**52**	7
David Turner	3	-	-	-	**3**	9
Allan Fisher	3	-	-	-	**3**	9
Tyler Tarr	10	-	-	-	**10**	-
Heidi Steiger	4	-	-	-	**4**	-
Mark Ollila	22	-	-	-	**22**	-
Total	284	-	1	11	**296**	785

11 Finance income and expenses

	2016 £'000	2015 £'000
Bank interest receivable	**-**	2
Total finance income	**-**	2
Other interest payable	**(2)**	-
Interest payable on loan from major shareholder	**(201)**	(5)
Total finance expenses	**(203)**	(5)

12 Taxation

	2016 £'000	2015 £'000
Current tax		
Income tax credit for the year	**(172)**	(227)
Total current tax (credit)	**(172)**	(227)
Deferred tax		
Current year	**-**	-
Adjustments in previous periods	**-**	-
Total deferred tax	**-**	-
Total tax (credit)	**(172)**	(227)

Reconciliation of effective tax rate

Tax assessed for the year is lower than (2015: lower than) the standard rate corporation tax of 20% (2015: 20.50%). The differences are explained below:

	2016 £'000	2015 £'000
Profit before tax	**(3,708)**	(6,530)
Tax using the UK corporation tax rate of 20% (2015: 20.00%)	**(742)**	(1,306)
Share based payment disallowed	**(25)**	-
Expenses not deductible for tax purposes other than goodwill amortisation and impairment	**25**	95
Other income not taxable	**1**	-
Tax losses carried forward	**743**	1,215
Research and development tax credit	**(172)**	(227)
Depreciation in excess of capital allowances	**(1)**	(4)
Total tax (credit)	**(172)**	(227)

Subject to the agreement of HMRC, the Group has UK tax losses of approximately £19,040,000 (2015 – £17,230,000) and US tax losses of approximately £2,310,000 (2015 – £1,928,000) to carry forward against future taxable profits. No deferred tax asset has been recognised in relation to the trading losses available for offset against future taxable profits. The Group and the Company have not recognised deferred tax asset due to there being insufficient evidence of short term recoverability.

13 Intangible assets

Intangible assets represent goodwill arising on the acquisition of subsidiary undertakings and capitalised costs of developing software products.

	Goodwill on consolidation £'000	Development costs £'000	Total £'000
Cost			
At 1 January 2015	-	966	966
Additions	-	167	167
Written down	-	(1,133)	(1,133)
At 31 December 2015 and at 31 December 2016	-	-	-
Depreciation			
At 1 January 2015	-	495	495
Charge for year	-	69	69
Written down	-	(564)	(564)
At 31 December 2015 and at 31 December 2016	-	-	-
Net book value			
At 31 December 2015 and at 31 December 2016	-	-	-
At 31 December 2014	-	471	471

14 Property, plant and equipment

Group	2016 £'000	2015 £'000
Cost		
At 1 January	**97**	155
Additions	**19**	26
Disposals	**(71)**	(84)
At 31 December	**45**	97
Depreciation		
At 1 January	**68**	139
Charge for year	**11**	13
On disposals	**(52)**	(84)
At 31 December	**27**	68
Net book value		
At 31 December	**18**	29
At 31 December	**29**	16

Company	2016 £'000	2015 £'000
Cost		
At 1 January	**12**	12
Additions	**-**	-
Written down	**(12)**	(12)
At 31 December	**-**	-
Depreciation		
At 1 January	**12**	12
Charge for year	**-**	-
On disposals	**(12)**	(12)
At 31 December	**-**	-
Net book value		
At 31 December	**-**	**-**
At 30 December	**-**	-

15 Investments

Company	Investments in subsidiaries £'000
Cost	
At 1 January 2016 and 31 December 2016	1,171
Impairment	
At 1 January 2016 and 31 December 2016	-
Net book value	
At 31 December 2016	**1,171**
At 31 December 2015	1,171

The companies in which the Company's interest at the year end is more than 20% are as follows:

Name	Country of incorporation	Principal activity	Percentage of shareholding
Fitbug Limited	England & Wales	Provision of online health and well-being services	100%
Fitbug Inc.	United States	Provision of online health and well-being services	100%

Shares in Fitbug Inc. are held by Fitbug Limited.

All shares held are ordinary equity shares. The percentages above reflect both holding and voting rights.

16 Inventories

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Goods held for resale	**167**	577	**-**	-
	167	577	**-**	**-**

The costs of inventories recognised as an expenses during the period in respect of continuing operations was £603,000 (2015 – £647,000)

17 Trade and other receivables

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Trade receivables	**158**	188	**-**	2
Provision for credit notes	**-**	(12)	**-**	-
Amounts owed by Group companies	**-**	-	**-**	-
Prepayments & accrued income	**34**	294	**7**	-
Income tax receivable	**172**	227	**-**	-
Other debtors	**56**	54	**55**	70
	420	751	**62**	72

Trade receivables disclosed above are classified as financial assets at amortised cost. The average credit period on sales of goods is 88 days (2015: 51 days) from the date of invoice.

Allowances for doubtful debts are recognised against trade receivables that are aged over 30 days and based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

Of the trade receivables disclosed above, the amounts that are past due at the end of the reporting period but against which the Group has not recognised an allowance for doubtful receivables because the amounts are still considered recoverable are summarised below. The group does not hold any collateral or other credit enhancements over those balances nor does it have a legal right to set off against any amounts owed by the Group to the counterparty.

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
31-60 days	**3**	5	**-**	-
61-90 days	**6**	(13)	**-**	-
91-120 days	**15**	145	**-**	-
>120 days	**124**	-	**-**	-
	148	137	**-**	-

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Balance at the start of the year	**12**	4	**-**	-
Provision for credit notes	**-**	12	**-**	-
Receivables written off in the year as uncollectable	**(111)**	(4)	**-**	-
At 31 December 2016	**(99)**	12	**-**	-

The creation and release of provision for impaired receivables has been included in "operating and administrative expenses" in the Consolidated Statement of Comprehensive Income. Amounts charged to the provision account are generally when there is no expectation of recovering additional cash.

All amounts impaired during the year are debts that were aged over 90 days.

17 Trade and other receivables (continued)

The creation of a credit note provision has been included in revenue and is in respect of anticipated returns of retail stock in trade where the purchaser has the full right of return.

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

Employee loans of £262,499 (2015 – £262,499) relating to former employees of the group were outstanding at 31 December 2016 against which a provision for irrecoverable amounts of £262,499 (2015 – £262,499) has been made. The employee loans are interest free and repayment is due when the former employees sell their shares in Fitbug Holdings plc.

18 Cash and cash equivalents

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Cash and cash equivalents	**23**	698	**8**	456

The Group's cash and cash equivalents are held primarily in Sterling and US Dollars as disclosed in note 25.

19 Trade and other payables

Amounts falling due within one year

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Trade payables	**347**	355	**23**	17
Other payables	**21**	34	**-**	-
Provision for credit notes	**-**	372		-
Amounts owed to Group companies	**-**	-	**-**	-
Taxation and social security	**35**		**-**	1
Accruals and deferred income	**272**	133	**155**	32
	675	894	**178**	50

The number of days outstanding between receipt of invoice and date of payment, calculated by reference to the amount owed in respect of trade payables as at 31 December 2016 as a proportion of amounts invoiced by suppliers during the year was 209 days (2015 – 23 days).

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

20 Borrowings

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Current liabilities				
Convertible loan	**-**	500	**-**	500
Director's loans	**75**	75	**75**	75
	75	575	**75**	575
Non-current liabilities				
Shareholder loans	**1,915**	8,239	**1,915**	8,239
Other loan	**-**	500	**-**	500
	1,915	8,739	**1,915**	8,739

20 Borrowings (continued)

Director's loans

Loans from former directors were to be repayable on 30 June 2016, or earlier at the discretion of the company. Loans were not repaid at this time and interest is now being repaid monthly at an annual rate of 8%. The former directors have the option to convert the outstanding loan amounts to ordinary shares in Fitbug Holdings PLC.

Shareholder Loans

As at 31 December 2016, the company has loans outstanding to NW1 totalling £1,915,275.

Of this amount, £500,000 is in the form of a secured loan note repayable on 31 July 2018 carrying interest of 4 per cent per year over the Bank of England base rate, and £1,076,275 will be in the form of a secured loan note repayable on 31 July 2019, again carrying interest of 4 per cent per year over the Bank of England base rate. The remaining £339,000 loan will be repayable on 31 July 2020 and will carry interest at 2.5% per year over the Bank of England base rate.

Convertible loan

The £500,000 balance of the loan issued under a convertible loan note instrument dated 28 June 2012 is for a term to 30th June 2016 and NW1 exercised its right to convert this to New Ordinary shares at the end of July 2016.

The maturity analysis of the loans is as follows:

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Repayable:				
Within one year	**-**	575	**-**	575
Repayable 1 and 5 years	**1,915**	8,739	**1,915**	8,739
	1,915	9,314	**1,915**	9,314

21 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Less than one year	**115**	78	**-**	78
Between one and five years	**-**	263	**-**	263
Over 5 years	**-**	252	**-**	252
	115	593	**-**	593

22 Share capital and share premium

Allotted, called up and fully paid	No.	Issue price £	Ordinary Shares £'000	Share premium £'000
At 31 December 2015	281,450,530	0.025	2,815	4,715
Issue of shares for equity	340,800,000	0.0025	340	511
Issue of shares for equity	296,000,000	0.025	296	7,104
Issue of shares for equity	40,000,000	0.025	40	960
Issue of shares for equity	77,116,438	0.0025	77	116
Issue of shares for equity	196,000,00	0.0025	196	294
Costs of issuing shares				(157)
As at 31 December 2016	**1,231,366,968**	**0.0825**	**3,764**	**13,543**

Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

All shares are equally eligible to receive dividends and the repayment of capital and represent equal votes at meetings of shareholders.

23 Earnings per share

Loss for the year and total comprehensive income	3,536,000
Weighted average number of ordinary shares in issue	701,905,343
Loss per share	**0,01**

24 Share-based payment

Fitbug Holdings plc operates equity-settled share-based remuneration for employees which are Enterprise Management Incentive ("EMI") Schemes. For the EMI scheme set up on 31 December 2014, the Group granted options to all current employees. These options vest over the three years from the grant date and expire on the 10th anniversary of the grant date. The only other vesting condition for all schemes is that the employee remains in the Group's employment. During the year all but one of fifteen employees' 2014 share options were forfeited or cancelled. All options issued under the 2009 and 2011 schemes were forfeited during 2015. In July 2016 new options were granted to Directors and employees. The 2016 options have the same conditions as the 2014 options.

Details of options in existence over ordinary shares are summarised below:

a) EMI Schemes

	2016		2015	
	Number	**Weighted average exercise price (pence)**	Number	Weighted average exercise price (pence)
Outstanding at the beginning of the year	**8,700,000**	**9.00**	23,100,000	8.46
Granted during the year	**113,837,413**	**0.37**	-	-
Forfeited/cancelled during the year	**(8,650,000)**	**9.00**	(14,400,000)	8.34
Outstanding and exercisable at the end of the year	**113,887,413**	**0.37**	8,700,000	9.00

The weighted average exercise price of options outstanding at the end of the year was 0.37p (2015 – 9.00p) and their weighted average remaining contractual life was 9.5 years (2015 – 9.01 years).

The fair value of the options granted during 2016 was determined using the Black-Scholes model and was determined to be immaterial; no expense is recognised within these financial statements. The credit recognised within these financial statements is the net effect of options cancelled and forfeited in the year.

24 Share-based payment (continued)

a) EMI Schemes (continued)

The share-based remuneration expense (note 7) comprises:

	2016 **£'000**	2015 £'000
Equity-settled schemes	**(125)**	473

25 Financial instruments

In common with other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in note 2.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processed for managing those risks or the methods used to measure them from previous years unless otherwise stated in this note.

Policies and risks

The Company's financial instruments comprise equity investments and cash. Equity is used to raise finance for the Company's operations and acquisitions.

The Company has not entered into any derivative transactions. The equity investments held by the Company are susceptible to changes in value arising from market factors. The performance of each investment is constantly monitored by the directors and the Company's advisers. At the balance sheet date, equity investments consist of interests in subsidiaries.

The Company is exposed to interest rate risk and fair value risk on its borrowings as set out in note 20 which are subject to a variable rate of interest. Currency risk is described below.

Liquidity risk is described in notes 2 to the consolidated financial statements and below:

Currency exposures

The monetary assets and liabilities of the Company are denominated in Sterling and, accordingly, the Company is not exposed to currency exchange fluctuations.

25 Financial instruments (continued)

Principal financial instruments

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

	Loans and receivables	
	2016	2015
	£'000	£'000
Current financial assets		
Trade and other receivables	**213**	231
Cash and cash equivalents	**23**	698
Total current financial assets	**236**	929

	Financial liabilities measured at amortised cost	
	2016	2015
	£'000	£'000
Current financial liabilities		
Trade and other payables	**443**	389
Borrowings	**75**	575
	518	964
Non-current financial liabilities		
Long term borrowings	**1,915**	8,739
Total current financial liabilities	**2,433**	9,703

There is no significant difference between the fair value and the carrying value of financial instruments.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives regular reports from the Finance Director through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Risk management

The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the risk management committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

25 Financial instruments (continued)

Capital risk management

The Group considers its capital to comprise its ordinary share capital, share premium and retained deficit as its equity capital. In managing its capital, the Group's primary objective is to provide a return for its equity shareholders through capital growth and future dividend income. Going forward the Group will seek to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues or the issue of debt, the Group considers not only its short-term position but also its long term operational and strategic objectives.

Equity has been exhausted by cumulative losses to date.

Details of the Group's capital are disclosed in the Consolidated Statement of Changes in Equity.

There have been no other significant changes to the Group's management objectives, policies and processes in the year nor has there been any change in what the Group considers to be capital.

Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Currency risk

The Group is not exposed to any significant currency risk. The Group also manages its currency exposure by retaining the majority of its cash balances in sterling.

Financial assets and liabilities are held in the following currencies at the year-end:

	2016		2015	
	Sterling £'000	**US Dollars £'000**	Sterling £'000	US Dollars £'000
Trade and other receivables	**213**	**4**	229	2
Cash and cash equivalents	**22**	**1**	648	50
Trade and other payables	**442**	**1**	345	44
Borrowings	**1,915**	**-**	9,314	-

Liquidity risk

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. However, the Group continues to absorb cash in its operations for the time being and management recognises the risk of insufficient cash and capital to carry on its activities and safeguard the Group's ability to continue as a going concern.

The Board receives cash flow projections on a regular basis which are monitored regularly. The Board will not commit to material expenditure in respect of its ongoing development programme prior to being satisfied that sufficient funding is available to the Group to finance the planned programmes. Regular reviews will ensure that further steps will be taken to cut additional overheads if necessary

It should be noted that some of the Group's financial instruments are due for repayment in more than one year (see note 20).

Interest rate risk and fair value risk

There is no significant interest rate risk in respect of temporary surplus funds invested in deposits and other interest-bearing accounts with financial institutions as the operations of the Group are not dependent on the finance income received. The Group was, however, exposed to interest rate risk on the loan from NW1 Investments Limited which attracts a rate of interest of 2.5% and 4% above the base lending rate of the Bank of England from 30 July 2016. The Group is subject to fair value risk on fixed interest loans described in note 20 which total £1,915,000. The Board does not undertake hedging arrangements.

25 Financial instruments (continued)

Credit risk

Credit risk arises principally from the Group's trade and other receivables. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument. The maximum exposure to credit risk equals the carrying value of these items in the financial statements. Further information in respect of the Group's credit risk is disclosed in note 17.

Credit risk with cash and cash equivalents is reduced by placing funds with banks with high credit ratings.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the Statement of Financial Position date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the Statement of Financial Position date if the effect is material.

Interest-bearing borrowings

Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

26 Pension commitments

Fitbug Limited operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by Fitbug Limited to the fund and amounted to £20,220 (2015 – £3,333). Contributions totalling £11,797 (2015 – £nil) were payable to the fund at the reporting date and included in other creditors.

27 Related parties

At the year end the group owed former directors D Turner £25,000 (2015: £25,000) and A Fisher £50,000 (2015: £50,000). Interest of £2,000 (2015: £nil) and £4,000 (2015: £nil) was payable on the loans respectively, after it was agreed to pay interest on the loans from 1 January 2016 and was accrued at a rate of 8%.

Loans from and transactions with NW1 Investments Limited, a company in which the family of D Turner and A Fisher have a material interest, are disclosed in note 20 to the consolidated financial statements.

Notice of Annual General Meeting

Fitbug Holdings plc, Company Number: 04466195

NOTICE IS HEREBY GIVEN that the annual general meeting of Fitbug Holdings Plc ("the Company") will be held at We Work, 41 Corsham Street, London N1 6DR on 5 May 2017 at 10:00 a.m. for the transaction of the following business:

Ordinary Business

To consider, and, if thought fit, pass the following Resolutions which will be proposed as Ordinary Resolutions:

1. To receive and adopt the report of the Directors of the Company and the audited accounts for the Company for the year ended 31 December 2016.

2. To appoint Richard Goodlad as a Director of the Company who, having been appointed as a director since the conclusion of the Annual General Meeting of the Company held in 2016, being eligible offers himself for re-election in accordance with Article 21.2 of the Company's Articles of Association.

3. To appoint Heidi Steiger as a Director of the Company who, having been appointed as a director since the conclusion of the Annual General Meeting of the Company held in 2016, being eligible offers herself for re-election in accordance with Article 21.2 of the Company's Articles of Association.

4. To re-appoint Hazlewoods LLP as auditors of the Company and to authorise the Directors to fix their remuneration.

Special Business

As special business to consider and, if thought fit, pass Resolutions numbered 6 and 8 which will be proposed as an Ordinary Resolutions and Resolutions numbered 5, 7 and 9 which will be proposed as Special Resolutions:

5. THAT the name of the Company be changed to Kin Group Plc.

6. THAT each of the 1,731,366,968 ordinary shares of 0.1p in the capital of the Company be sub-divided into one ordinary share of 0.01p in the capital of the Company, having the same rights and being subject to the same restrictions (save as to nominal value) as the existing ordinary shares, and one B Deferred Share of 0.09p each in the capital of the Company having the rights and being subject to the restrictions set out in resolution 7 below.

7. THAT, conditional upon the passing of Resolution 6, the Articles of Association of the Company be hereby amended by the insertion of the following new Article 2.B:

   "2.B The B Deferred Shares of 0.09p in the Company shall have the following rights and be subject to the following restrictions:

   (i) no right to participate in or receive any dividends declared, made or paid by the Company;

   (ii) no right to receive notice of or attend or speak or vote at any general or class meeting (other than a class meeting of the B Deferred Shares) of the Company;

   (iii) the approval of the Directors shall be required for any transfer of B Deferred Shares;

   (iv) the right on a return of assets in a winding-up to a repayment of the capital paid up on such shares after the rights of all holders of Ordinary Shares have been discharged in full and a sum of £100,000 has been paid in respect of each issued Ordinary Share in the capital of the Company, but no other right to participate in the assets of the Company; and

   (v) the Directors shall have irrevocable authority at any time to appoint any person to execute on behalf of the holders of the B Deferred Shares a transfer thereof and/or an agreement to transfer the same, without making any payment to the holders thereof, to such person as the Directors may determine as custodian thereof and to cancel and/or purchase the same (in accordance with the provisions of statute) without making any payment to or obtaining the sanction of the holders thereof and pending the transfer and/or cancellation and/or purchase to retain the certificate for such shares, but so that none of the rights or restrictions attached to such B Deferred Shares shall be or be deemed to be varied or abrogated in any way by the passing or coming into effect of any resolution of the Company to reduce its share capital and/or reduce or cancel (as the case may be) its share premium account (including a resolution to reduce the capital paid up on, and to cancel, such B Deferred Shares)."

8. THAT, in substitution for any existing and unexercised authorities, the Directors be and they are hereby generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act 2006 (as amended) ("the Act") to exercise all the powers of the Company

to allot relevant securities, within the meaning of section 560 (1) of the Act, up to a maximum nominal amount of £200,000.00 provided that this authority shall expire at the end of the next annual general meeting of the Company to be held after the date of the passing of this Resolution or, if earlier, fifteen months from the date of the passing of this Resolution (unless previously renewed, varied or revoked by the Company in general meeting) save that the Company may prior to the expiry of such period make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors shall be entitled to relevant securities pursuant to any such offer or agreement as if this authority had not expired.

9. THAT, subject to and conditionally upon the passing of Resolution 8 above, in substitution for any existing and unexercised authorities, the Directors be and they are hereby empowered pursuant to section 570 of the Act and section 573 of the Act to allot equity securities (within the meaning of section 560(1) of the Act) for cash pursuant to the authority conferred on them by Resolution 8 above or by way of a sale of treasury shares as if section 561(1) of the Act did not apply to such allotment provided this power shall be limited to:

(i) the allotment of equity securities in connection with a rights issue, open offer or other offer of equity securities open for acceptance for a period fixed by the Directors of the Company to holders of equity securities on the register of members at such record dates as the Directors may determine and other persons entitled to participate therein where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be practicable) to the respective holdings of such equity securities held or deemed to be held by them on any such record dates (which shall include the allotment of equity securities to any underwriter in respect of such issue or offer) or in accordance with the rights attached thereto (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatever); and

(ii) the allotment of equity securities to any person or persons (otherwise than pursuant to sub-paragraph (i) of this Resolution above) up to an aggregate nominal amount of £200,000.00;

provided that the power conferred by this Resolution shall expire at the end of the next annual general meeting of the Company to be held after the date of the passing of this Resolution or, if earlier, fifteen months from the date of the passing of this Resolution (unless previously renewed, varied or revoked by the Company in general meeting), save that the Company shall be entitled to make offers or agreements before the expiry of such power which would or might require equity securities to be allotted after such expiry and the Directors shall be entitled to allot equity securities pursuant to any such offers or agreements as if the power conferred hereby had not expired. This Resolution revokes and replaces all unexercised powers previously granted to the Directors to allot equity securities as if section 561(1) of the Act did not apply but is without prejudice to any allotment of equity securities already made or agreed to be made pursuant to such authorities.

By order of the Board

Filex Services Limited
Company Secretary

Registered office:
6th Floor
Kildate House
3 Dorset Rise
London EC4Y 8EN

Dated 11 April 2017

Notes

1. A member entitled to attend and vote at the above meeting is entitled to appoint a proxy or proxies to attend, speak and vote instead of him. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company.
2. A Form of Proxy is enclosed for your use if desired. To be valid, your proxy form and any power of attorney or other authority under which it is signed or a notarially certified copy of that power of attorney or authority must reach the Company's Registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen B63 3DA not less than 48 hours before the time of holding of the meeting.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders of the Company on the register of members of the Company 48 hours before the time set for the meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at the time. Changes to the register of members after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.
4. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

5. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you should contact Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen B63 3DA.
6. In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
7. CREST members who wish to appoint a proxy or proxies through the CREST Electronic Proxy Appointment Service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with the specifications of Euroclear UK & Ireland Limited ("EUI") and must contain the information required for such instructions, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the Company's agent (ID 7RA11) by 10.00 a.m. on 3 May 2017. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.
8. CREST members and, where applicable, their CREST sponsors or voting services provider(s) should note that EUI does not make available special procedures in EUI for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
9. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
10. Except as provided above, members who have general queries about the meeting should contact Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen B63 3DA. You may not use any electronic address provided either in this notice of annual general meeting or any related documents (including the chairman's letter, the form of proxy and the Directors' letter and explanatory note in respect of electronic communications) to communicate with the Company for any purposes other than those expressly stated.
11. A copy of the Register of Directors' interests in shares in the Company and copies of the Directors' service contracts will be available for inspection at the registered office of the Company during business hours only on any weekday (excluding Saturdays, Sundays and public holidays) from the date of this notice until the date of the meeting and at the place of the meeting for at least 15 minutes prior to and during the meeting.
12. Resolution 5 – Change of name: The directors believe it is appropriate to change the name of the Company in order to reflect the changed nature of the Company's business.
13. Resolution 6 – Subdivision of Ordinary Shares: The Companies Act 2006 prohibits the Company from issuing shares at a price below their nominal value. As the Company's current share price is close to the current nominal value of 0.1p per share, it is proposed that each of the existing Ordinary Shares of 0.1p be sub-divided into one Ordinary Share of 0.01p and one B Deferred Share of 0.09p, such Deferred Shares having the rights and being subject to the restrictions attached to them as proposed in Resolution 7. Passing this resolution will ensure that the directors have the flexibility to act in the best interests of shareholders to take advantage of fundraising and other business opportunities as they arise.
14. Resolution 7 – Rights of B Deferred Shares: The B Deferred Shares will not entitle their holders to receive notice of or to attend or vote at any general meeting of the Company, or to receive any dividend or other distribution. On a return of capital on a winding up or dissolution of the Company, the holders of the B Deferred Shares shall be entitled to receive an amount equal to the nominal amount paid up thereon, but only after the holders of Ordinary Shares have received £100,000 per Ordinary Share. The holders of B Deferred Shares are not entitled to any further right of participation in the assets of the Company. The Company shall have the right to purchase the B Deferred Shares in issue at any time for no consideration. As such, the B Deferred Shares effectively have no value. Share certificates will not be issued in respect of the B Deferred Shares, and they will not be admitted to trading on AIM.
15. Resolution 8 -Authority to allot shares: The directors may only allot shares or grant rights over shares if authorised to do so by shareholders. The authority granted at the last general meeting to allot shares or grant rights to subscribe for, or convert any security into, shares is due to expire at the conclusion of this year's AGM. Accordingly, resolution 8, if passed, would authorise the directors under section 551 of the Companies Act 2006 to allot new shares or grant rights to subscribe for, or convert any security into, new shares (subject to shareholders' pre-emption rights) up to a maximum nominal amount of £200,000. The authority will expire at the earlier of the conclusion of the next annual general meeting of the Company and 5th August 2018. Passing this resolution will ensure that the directors continue to have the flexibility to act in the best interests of shareholders, when opportunities arise, by issuing new shares.
16. Resolution 9 - Disapplication of pre-emption rights The Companies Act 2006 requires that if the Company issues new shares or grants rights to subscribe for or to convert any security into shares for cash, or sells any treasury shares, it must first offer them to existing shareholders in proportion to their current holdings. It may be in the best interests of the Company to allot shares (or to grant rights over shares) for cash without first offering them proportionately to existing shareholders. This can be done only if shareholders have waived their pre-emption rights. Approval is being sought by the directors to issue a number of ordinary shares for cash without first offering them to existing shareholders. Resolution 9 contains a two-part disapplication of pre-emption rights which seeks to renew the directors' authority to issue equity securities of the Company for cash without application of pre-emption rights pursuant to section 561 of the Companies Act 2006. Other than in connection with a rights or other pre-emptive issue, scrip dividend or other similar issue, or so as to allow the directors to make exclusions or such other arrangements as may be appropriate to resolve legal or practical problems which might arise, for example, with overseas shareholders the authority contained in resolution 9 would be limited to a maximum nominal amount of £200,000 (which would equate to 2,000,000,000 ordinary shares of 0.01 pence each). If passed, these authorities will expire at the same time as the authority to allot shares given pursuant to resolution 8 (Authority to allot shares). The Directors consider this authority appropriate in order to retain maximum flexibility to take advantage of fundraising and other business opportunities as they arise.

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