

SEMAFONE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

SEMAFONE LIMITED

COMPANY INFORMATION

Directors

M Havard
D Jackson
D Sear
J Vinson (resigned 15 February 2019)
M Ferguson
G Barnett (appointed 7 February 2019)
T Critchley (resigned 8 February 2019)
W Gresty (appointed 30 August 2019)
J Donaldson (appointed 17 July 2019)
J Eggleston (appointed 15 February 2019, resigned 30 August 2019)

Registered number

06963868

Registered office

Pannell House
Park Street
Guildford
Surrey
GU1 4HN

Independent auditors

Price Bailey LLP
Chartered Accountants & Statutory Auditors
Dashwood House
69 Old Broad Street
London
EC2M 1QS

SEMAFONE LIMITED

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**GROUP STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

Introduction

It has been another year of progress across the group with further investment in sales and technical resource in the US market as well as the general availability of new services to complement and enhance our existing Voice + product. Revenues and customer numbers have grown across the business with a significant contribution from North America. Pipeline in Australia was slower to close than we anticipated but we are starting to see opportunities convert into revenue and a much stronger pipeline building.

Business review

The principal activity of the group continues to be the development and distribution of software that enables contact centres to take payments over the phone and secure their customers' personal data. More recently, with the restrictions imposed by governments in relation to people movements during COVID-19, we have seen increased interest in our newer products that allow businesses to maintain PCI compliance for a distributed workforce that would traditionally be located in localised contact centres. We have expanded the datasets via our voice service to include personal information, personal banking information and non voice based omnichannel. The market demand for such products and services continues to expand all the time and the Directors have seen increased interest from prospective customers for both the voice based services and increasingly the omnichannel products that allow secure payments to be made by customers via links delivered through webchat, SMS or other means that we have expanded on both in bullet 3 below in the Strategic Report and within the second bullet within Future Developments on Page 5. It is, in particular, these omnichannel products that support distributed working situations versus the traditional contact centre setup. In addition, recommendations by a special interest group convened by the PCI Security Standards Council reference the effectiveness of Semafone's Voice solution versus traditional "pause and resume" solutions that have traditionally been used to avoid capturing sensitive consumer data.

The business has reported a profit after tax for 2019 of £260,891. The principle measure of profitability the business uses is EBITDA, which is separately reconciled and reported on in the profit and loss section of these accounts and is reported as a profit of £1,936,040. This demonstrates a successful period of trading and reflects the rewards the business is enjoying after investments the business has previously made in developing its products and routes to market.

Our historical strategy has been to focus direct sales on larger enterprise customers in certain key industry verticals with indirect sales building key relationships with channel partners. The UK market is now almost exclusively via channel partners with no significant sales deployed as on-premise solutions. The US market, whilst slightly behind the UK market in terms of maturity, is rapidly catching up with the UK. There are still a significant number of sales direct to end customers although the number of partners deploying Semafone's suite of products is rapidly increasing. These partners deploy Semafone's products either via CCaaS, UCaaS, OEM or as a Telco deployment.

In 2019 we have additional generally available products and services in the following areas. These are aimed at a number of different areas:

- Cloud offering for Voice + product in the US market to include pure Cloud and hybrid Cloud
- Protecting businesses from capturing other sensitive data sets in addition to customer credit card data which is Semafone's traditional product
- Omnichannel product Relay + protecting payment via e-commerce, mobile commerce, SMS and Webchat
- Secure payment solutions for customers with special accessibility needs
- Intelligence +, a tool to analyse and report on activity and performance within the secure environment delivered by Semafone to the customer.

SEMAFONE LIMITED

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

Principal risks and uncertainties

Competition in the UK and US market has increased in recent years as the market opportunity has matured but, despite this, the company's recurring revenues in the UK (excluding any one-off licences) continue to show good growth.

The group is encouraged by the demand for its solutions in new geographic territories such as North America but is cognisant of the greater execution risk that needs to be managed in realising this market potential. The business has invested in larger numbers of technical, sales and delivery staff to mitigate this risk.

Financial key performance indicators

The group has achieved strong revenue growth of 16% from 2018 to 2019. The UK region grew by 10% and the North American market by 25%, which includes one-off customer related income of £1.11M. Even though the group remains in 'investment mode' following the series B fundraising in 2014, the group is profitable at an EBITDA level. This is a sign of the increasing maturity of the group's products as well as the strength of market demand. The EBITDA performance is detailed in the below table:

	2019 £	2018 £
Non-GAAP measure - EBITDA		
Profit / (loss) after tax	260,891	(783,428)
Adjustments for:		
Taxation	(488,737)	(375,866)
Interest receivable	(6,430)	(1,623)
Interest payable	489,518	405,595
Impairment of intangible fixed assets	165,681	-
Amortisation of intangible fixed assets	753,503	528,821
Depreciation of tangible fixed assets	761,614	522,876
	<u>1,936,040</u>	<u>296,375</u>

The group considers the following additional Key Performance Indicators to be important and monitors and reports on these accordingly:

- Monthly recurring revenues from annual licences and support fees; which we exited 2019 at MRR of £919,573;
- Total Contract Value for new deals signed; which totaled £11,217,768 in 2019 and is forecast at £16,606,721 in 2020;
- Sales pipeline including New Order Bookings which exited 2019 for 2020 at £15,311,101;
- Deployment Services Order Book and utilisation of Deployment Services resources, which totaled £1,060,451 of unbilled revenue in hand at the end of 2019 with utilisation of staff running at an average of 80% during 2019;
- Management of working capital which we principally measure through cashflow projections.

Other key performance indicators

The team globally has grown from 100 at the beginning of the year to 109 people (FTE) by the end of the year. A head of sales was recruited for the US and a head of platforms was also recruited. Resources were increased in the product management, product marketing and development areas in order to develop new solutions for customers based on our patented technology. Sales and Marketing continue to be high areas of investment for the company with a significant portion of 2019 revenue to be reinvested in ensuring continued topline growth.

SEMAFONE LIMITED

**GROUP STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019**

This report was approved by the board and signed on its behalf.

G Barnett
Director

Date: 29 April 2020

SEMAFONE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

Directors

The directors who served during the year were:

M Havard
D Jackson
D Sear
J Vinson (resigned 15 February 2019)
M Ferguson
G Barnett (appointed 7 February 2019)
T Critchley (resigned 8 February 2019)
W Gresty (appointed 30 August 2019)
J Donaldson (appointed 17 July 2019)
J Eggleston (appointed 15 February 2019, resigned 30 August 2019)

Principal activity

The principal activity of the company is the development and distribution of software that enables call centres, who take payments over the phone or via omnichannel (SMS and email, agent webchat, instant messaging and social media etc), to eliminate agent fraud and inadvertent storage of sensitive data. More recently, with the restrictions imposed by governments in relation to people movements during COVID-19, we have seen increased interest in our omnichannel products that allow businesses to maintain PCI compliance for a distributed workforce that would traditionally be located in localised contact centres. Our products significantly reduces the costs for companies of complying with PCI DSS, the Payment Card Industry's Data Security Standard, and substantially reduces the risk for them of inadvertently storing customer's personal information. Customers are increasingly using Semafone in a broader context and the company is working with those customers to secure other items of sensitive personal data processed by the customer via multiple channels.

Directors' responsibilities statement

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 financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

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

- select suitable accounting policies for the Group's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

SEMAFONE LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

Results and dividends

The profit for the year, after taxation, amounted to £260,891 (2018 - loss £783,428).

No dividends were paid during the year (2018 - £Nil).

Future developments

The company continues to increase the breadth and reach of its secure payments capabilities both to new customers and into new markets, most notably North America and Australia. In addition, the company has invested resource and energy in developing new products that complement its position as a leader in securing sensitive information. There are a number of new products commercially available and aimed at a number of different areas:

- Protecting businesses from capturing other sensitive data sets in addition to customer credit card data which is Semafone's traditional Voice + product. These include but are not limited to bank account and routing code, personal information such as social security or medical information or PIN codes
- Secure payment solutions associated with payments made through "omnichannels" from the contact centre. This product is named Relay +. These "omnichannels" include but are not limited to:
 - Agent webchat
 - Instant messaging and social media
 - AI and chatbots
 - Email and SMS
 - E- and M- commerce
 - QR codes
- Cloud-based deployment of Relay +.
- Solution to provide analytics and reporting of customer activities through Semafone products. The product is known as Intelligence +.
- Secure payment solutions through the voice channel for customers with special accessibility needs. This feature is named Live Voice Capture
- Cloud and appliance based delivery of Voice + services. Traditionally Semafone deployed services on the customer's premise. Increasingly customers are adopting cloud based services and Semafone is able to deploy Voice + in a variety of hybrid or fully cloud based architectures.
- Other secure authentication tools designed for anticipated regulation in the Financial Services arena.

Semafone is focussing on selling these products increasingly via channel partners in order to increase the penetration of its services in existing and new markets and verticals.

SEMAFONE LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

Engagement with employees

The Board of Directors have put in place a number of initiatives that engage and support interaction and communication between the Directors and employees. These include:

- The Board monitor various Key Performance Indicators (KPI's) within the business that identify employee utilisation, monthly attrition, speed of deployments etc. They discuss any trends and put rectification plans in place if necessary.
- The Board have implemented a process called VSPE (Vision, Strategy, Planning, Execution) that cascades the vision statement from the Board (evaluated annually). This is then cascaded to the business strategy which is reviewed every 6 months at the Semafone senior management level. This then passes down to planning which is evaluated quarterly. For each team within Semafone this level of the process is communicated via a face to face "lunch and learn" session or via conference call to the whole organisation, where they can discuss and ask questions. This is to enhance the employees' understanding of all levels of the process and what each group within the business ultimately contributes towards the Board vision.
- Semafone has developed the Semafone Solutions Lifecycle Process (SSLP). This allows all stakeholders within the business to discuss viability of new products and end-of-life for existing products. The Board and Directors are part of the discussions and approvals within this process and it allows the Board to understand from employees the market and competitive drivers for new products.
- The Board has rolled out and maintains a number of employee related policies regarding gender equality, equal opportunities and diversity, working from home, enhanced maternity and paternity schemes, training and enhanced sickness pay. All these are designed to be favourable to the employee compared to statutory requirements and promote a strong working relationship between the business and its employees.
- The company runs QBR's (Quarterly Business Reviews) every quarter. These discuss financial performance, sales activity, delivery of projects, new products and ideas and other activities. This keeps employees up to date with all aspects of the business and these are run by the Executive Directors.
- At each Board meeting a member of the senior team at Semafone is invited to present information and initiatives they and their team are involved in. This is to develop staff interaction with the Board as well as the board having deeper insight into specific groups within the business.
- A net promoter score survey is conducted across the company during the six month review of staff and the results and proposed actions shared with the Board
- The Board receive a monthly Board report from each Executive group in Semafone. This includes an update from the Human Resources function highlighting employee related issues and any suggested actions.
- The Board met with Global staff in early 2019 to discuss the rationale around a management restructure with the opportunity for employees to discuss and ask questions.

SEMAFONE LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019**

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company and the Group's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditors are aware of that information.

Post balance sheet events

Since the end of the financial year there has been the ongoing worldwide spread of the COVID-19 virus and the associated disruption to individuals and businesses. Currently Semafone has seen no downturn to its sales activities nor to its relationships with existing customers and suppliers. Further information on planning activities by Semafone for this situation can be found in note 2.3 on Page 16.

Auditors

The auditors, Price Bailey LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.

G Barnett

Director

Date: 29 April 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SEMAFONE LIMITED

Opinion

We have audited the financial statements of Semafone Limited (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2019, which comprise the Group Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group Statement of Cash Flows, the Group and Company Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to note 2.3 in the financial statements, which indicates the uncertainty in respect of the current health pandemic COVID 19 and the impact of this on the Group's finances and reliance on bank support. As stated in note 2.3, these events or conditions, along with the other matters as set forth in note 2.3, indicate that a material uncertainty exists that may cast significant doubt on the Group's or the parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

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

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

We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SEMAFONE LIMITED (CONTINUED)

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

SEMAFONE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SEMAFONE LIMITED (CONTINUED)

Use of our report

This report is made solely to the Company's members 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 Auditors' 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 for our audit work, for this report, or for the opinions we have formed.

Richard Vass (Senior Statutory Auditor)

for and on behalf of

Price Bailey LLP

Chartered Accountants
Statutory Auditors

Dashwood House
69 Old Broad Street
London
EC2M 1QS

1 May 2020

SEMAFONE LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 £	As restated 2018 £
Turnover	4	15,078,053	12,989,053
Cost of sales		<u>(3,945,866)</u>	<u>(3,480,749)</u>
Gross profit		11,132,187	9,508,304
Administrative expenses		(10,940,944)	(10,263,626)
Other operating income	5	<u>63,999</u>	<u>-</u>
Operating profit/(loss)	6	255,242	(755,322)
Interest receivable and similar income	11	6,430	1,623
Interest payable and expenses	12	<u>(489,518)</u>	<u>(405,595)</u>
Loss before taxation		(227,846)	(1,159,294)
Tax on loss	13	<u>488,737</u>	<u>375,866</u>
Profit/(loss) for the financial year		<u><u>260,891</u></u>	<u><u>(783,428)</u></u>
Currency translation differences		3,045	(4,677)
Total comprehensive income for the year		<u><u>263,936</u></u>	<u><u>(788,105)</u></u>

The notes on pages 17 to 38 form part of these financial statements.

The following table is provided to show the earnings before interest, tax depreciation and amortisation ("EBITDA").

	2019 £	As restated 2018 £
Non-GAAP measure - EBITDA		
Profit / (loss) after tax	260,891	(783,428)
Adjustments for:		
Taxation	(488,737)	(375,866)
Interest receivable	(6,430)	(1,623)
Interest payable	489,518	405,595
Impairment of intangible fixed assets	165,681	-
Amortisation of intangible fixed assets	753,503	528,803
Depreciation of tangible fixed assets	<u>761,614</u>	<u>522,876</u>
	<u><u>1,936,040</u></u>	<u><u>296,357</u></u>

SEMAFONE LIMITED
REGISTERED NUMBER: 06963868

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2019

	Note	2019 £	2018 £
Fixed assets			
Intangible assets	15	3,801,172	2,845,672
Tangible assets	16	1,553,876	1,398,725
		5,355,048	4,244,397
Current assets			
Debtors: amounts falling due within one year	18	4,158,064	5,353,863
Cash at bank and in hand	19	2,395,919	2,741,641
		6,553,983	8,095,504
Creditors: amounts falling due within one year	20	(12,769,332)	(13,235,712)
Net current liabilities		(6,215,349)	(5,140,208)
Total assets less current liabilities		(860,301)	(895,811)
Creditors: amounts falling due after more than one year	21	(3,342,731)	(3,593,646)
Net liabilities		(4,203,032)	(4,489,457)
Capital and reserves			
Called up share capital	22	75,841	69,677
Share premium account	24	8,444,809	8,428,484
Foreign exchange reserve	24	3,452	407
Profit and loss account	24	(12,727,134)	(12,988,025)
		(4,203,032)	(4,489,457)

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

G Barnett
Director

Date: 29 April 2020

The notes on pages 17 to 38 form part of these financial statements.

SEMAFONE LIMITED
REGISTERED NUMBER: 06963868

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2019

	Note	2019 £	2018 £
Fixed assets			
Intangible assets	15	3,801,172	2,844,447
Tangible assets	16	884,550	1,108,940
Investments	17	26,522	26,522
		4,712,244	3,979,909
Current assets			
Debtors: amounts falling due within one year	18	4,061,374	5,176,327
Cash at bank and in hand	19	2,352,296	2,626,957
		6,413,670	7,803,284
Creditors: amounts falling due within one year	20	(12,512,309)	(12,885,269)
Net current liabilities		(6,098,639)	(5,081,985)
Total assets less current liabilities		(1,386,395)	(1,102,076)
Creditors: amounts falling due after more than one year	21	(3,123,742)	(3,593,646)
Net liabilities		(4,510,137)	(4,695,722)
Capital and reserves			
Called up share capital	22	75,841	69,677
Share premium account	24	8,444,809	8,428,484
Profit and loss account	24	(13,030,787)	(13,193,883)
		(4,510,137)	(4,695,722)

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

G Barnett

Director

Date: 29 April 2020

The notes on pages 17 to 38 form part of these financial statements.

SEMAFONE LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Called up share capital £	Share premium account £	Foreign exchange reserve £	Profit and loss account £	Total equity £
At 1 January 2018	69,451	8,428,484	5,084	(12,204,597)	(3,701,578)
Loss for the year	-	-	-	(783,428)	(783,428)
Movement in foreign exchange	-	-	(4,677)	-	(4,677)
Total comprehensive income for the year	-	-	(4,677)	(783,428)	(788,105)
Shares issued during the year	226	-	-	-	226
At 1 January 2019	69,677	8,428,484	407	(12,988,025)	(4,489,457)
Profit for the year	-	-	-	260,891	260,891
Movement in foreign exchange	-	-	3,045	-	3,045
Total comprehensive income for the year	-	-	3,045	260,891	263,936
Shares issued during the year	6,164	16,325	-	-	22,489
At 31 December 2019	<u>75,841</u>	<u>8,444,809</u>	<u>3,452</u>	<u>(12,727,134)</u>	<u>(4,203,032)</u>

The notes on pages 17 to 38 form part of these financial statements.

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Called up share capital £	Share premium account £	Profit and loss account £	Total equity £
At 1 January 2018	69,451	8,428,484	(12,292,836)	(3,794,901)
Loss for the year	-	-	(901,047)	(901,047)
Total comprehensive income for the year	-	-	(901,047)	(901,047)
Shares issued during the year	226	-	-	226
At 1 January 2019	69,677	8,428,484	(13,193,883)	(4,695,722)
Profit for the year	-	-	163,096	163,096
Total comprehensive income for the year	-	-	163,096	163,096
Shares issued during the year	6,164	16,325	-	22,489
At 31 December 2019	<u>75,841</u>	<u>8,444,809</u>	<u>(13,030,787)</u>	<u>(4,510,137)</u>

The notes on pages 17 to 38 form part of these financial statements.

SEMAFONE LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019**

	2019 £	As restated 2018 £
Cash flows from operating activities		
Loss for the financial year	260,891	(783,428)
Adjustments for:		
Amortisation of intangible assets	753,503	528,821
Depreciation of tangible assets	764,105	534,987
Impairments of fixed assets	165,681	-
Loss on disposal of assets	27,171	356
Interest paid	489,518	405,595
Interest received	(6,430)	(1,623)
Taxation charge	(488,737)	(375,866)
Decrease/(increase) in debtors	656,358	(13,531)
(Decrease)/increase in creditors	(795,008)	1,220,080
Corporation tax received/(paid)	1,043,641	(37,716)
Net cash generated from operating activities	<u>2,870,693</u>	<u>1,477,675</u>
Cash flows from investing activities		
Purchase of intangible fixed assets	(1,898,334)	(1,655,864)
Purchase of tangible fixed assets	(932,599)	(749,754)
Interest received	6,430	1,623
Net cash from investing activities	<u>(2,824,503)</u>	<u>(2,403,995)</u>
Cash flows from financing activities		
Issue of ordinary shares	22,060	226
New secured loans	-	1,951,016
Repayment of loans	(246,152)	-
Interest paid	(153,975)	(66,663)
HP interest paid	(26,712)	(1,401)
Net cash used in financing activities	<u>(404,779)</u>	<u>1,883,178</u>
Net (decrease)/increase in cash and cash equivalents	<u>(358,589)</u>	<u>956,858</u>
Cash and cash equivalents at beginning of year	2,741,641	1,790,515
Foreign exchange gains and losses	12,867	(5,732)
Cash and cash equivalents at the end of year	<u><u>2,395,919</u></u>	<u><u>2,741,641</u></u>
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	2,395,919	2,741,641
	<u><u>2,395,919</u></u>	<u><u>2,741,641</u></u>

The notes on pages 17 to 38 form part of these financial statements.

SEMAFONE LIMITED

**CONSOLIDATED ANALYSIS OF NET DEBT
FOR THE YEAR ENDED 31 DECEMBER 2019**

	At 1 January 2019 £	Cash flows £	New finance leases / HP agreements £	Other non-cash changes £	At 31 December 2019 £
Cash at bank and in hand	2,741,641	(358,589)	-	12,867	2,395,919
Debt due after 1 year	(1,232,733)	-	-	317,513	(915,220)
Debt due within 1 year	(1,385,587)	246,152	-	(406,718)	(1,546,153)
Finance leases / HP agreements	(92,624)	170,210	(587,446)	10,318	(499,542)
	<u>30,697</u>	<u>57,773</u>	<u>(587,446)</u>	<u>(66,020)</u>	<u>(564,996)</u>

The notes on pages 17 to 38 form part of these financial statements.

SEMAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. General information

Semafone Limited is a private Company limited by shares incorporated in England, United Kingdom. These financial statements are the consolidated financial statements of the group, members of which are listed within the subsidiary undertakings note. The address of the registered office of the company is Pannell House, Park Street, Guildford, Surrey, GU1 4HN.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group's accounting policies (see note 3).

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements.

The following principal accounting policies have been applied:

2.2 Basis of consolidation

The consolidated financial statements present the results of the Company and its own subsidiaries ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.3 Going concern

Although the Group has cash at bank, it has made losses during recent years of trading due to high costs of developing its new products and setting up offices in new markets, most notably North America. The Group's products are now largely developed with revenue expected to continue to increase, and the costs of the business to be kept in control to generate positive cash flow and profitability in 2020.

The accounts will maintain positive cash flows during the loss making period. The policy the company adopts for customer invoicing and cash collection (in advance of providing its services) together with the credit-worthiness of the customers provides the business with available cash ahead of incurring day to day expenditure. The company has an existing loan facility with Clydesdale Bank, Clydesdale Bank have indicated they would be willing to extend this facility further with Semafone should the need arise. In addition, £6,895,037 of the balance within Creditors – Amounts due within 1 year, is comprised of deferred revenue from customers paying in advance for the company's services. These are not ordinarily recoverable by the customers and would require a small level of resource to support over the medium term. In addition, within Creditors - Amounts due within 1 year are dividends and associated fees totalling £2,315,112. Within Creditors – Amounts due in greater than 1 year this

figure is £367,347. These amounts are not payable until the earlier of the company having sufficient distributable reserves or there is a reorganisation of the company's capital. However, there is no unconditional right for the company to defer these payments, hence the amount that is disclosed in Creditors: Amounts falling due within one year. We do not expect conditions to occur in the year post 31 December 2019 to trigger this payment. The directors remain confident that the Group will continue to have the resources for the next twelve months and deliver sustainable profit in the medium term period.

We have also considered 2 situations that are ongoing at the filing date for these accounts, Brexit and Covid-19. We do not believe the effect of Brexit will materially affect our business as a substantial amount of growth of the business is in North America and we see good growth spread across customers who operate cross border in the UK and Europe.

The uncertainty as to the future impact on the Group of the recent Covid-19 outbreak in particular has been considered as part of the Group's adoption of the going concern basis. To date, we have not observed any material impact on our activities due to Covid-19 and, indeed, have continued to win significant pieces of work since the UK went into lockdown which are already being delivered remotely. A number of our more recent product offerings cater specifically to maintain PCI compliance for remote working environments. In addition the employees of the company have all been working remotely from their normal locations and there has been no reduction in sales or deployment activity with cash collection and invoicing continuing as normal. Our business does not require people to be on site in any location to regularly perform their work.

We prepared a number of forecasts, using the following key assumptions; the impact of reduced sales activity of between a 0% loss of future sales and 100% loss of sales over a 9 month period and have forecast known and actioned reductions in expenditure within our business reflecting, for example, individuals not being located in offices for a period of time amongst others and targeted reduction in headcount.

Even under the worst case downside scenarios we are confident that we are taking sufficient mitigation action to ensure that our resources remain sufficient over the forecast period to maintain our cashflows.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.4 Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Group and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before turnover is recognised:

Sale of goods

Turnover from the sale of goods is recognised when all of the following conditions are satisfied:

- the Group has transferred the significant risks and rewards of ownership to the buyer;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of turnover can be measured reliably;
- it is probable that the Group will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Hardware sales are recognised when shipped to the client premises.

Rendering of services

Turnover from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of turnover can be measured reliably;
- it is probable that the Group will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

Annual license sales are invoiced and monies are received in advance, with the revenue deferred until the client's system is operational, when the revenue is released over the year.

Perpetual licences sales are invoiced and monies are received in advance, with this being triggered at the earlier of the company receiving a signed contract, the receipt of a valid purchase order or on invoice date, this revenue is then released over a period of five years.

Support and maintenance fees are recognised over the period of support. Consultancy and other sales are recognised as the work is performed.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2. Accounting policies (continued)

2.5 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

The estimated useful lives range as follows:

Patents	-	10 years
Development expenditure	-	3-5 years
Trademarks	-	10 years
Other intangible fixed assets	-	4 years

Expenditure on development activities are capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete the development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible assets during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

2.6 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Leasehold improvements	- 5 years straight line
Other fixed assets	- 3 years straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.7 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

2.8 Valuation of investments

Investments held as fixed assets are shown at cost less provision for impairment.

2.9 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.10 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Consolidated Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

2.11 Financial instruments

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Consolidated Statement of Comprehensive Income.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Group would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial liabilities valued at fair value through profit or loss comprise ordinary A2 shares classified as debt, this change in fair value includes both the nominal dividend due for the year and other changes in fair value.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.12 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.13 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is Sterling.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

On consolidation, the results of overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

2.14 Finance costs

Finance costs are charged to the Consolidated Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.15 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 Consolidated 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. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Group keeping the scheme open or the employee maintaining any contributions required by the scheme).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.16 Operating leases

Rentals paid under operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.17 Leased assets

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the Consolidated Statement of Comprehensive Income so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

2.18 Pensions

Defined contribution pension plan

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations.

The contributions are recognised as an expense in the Consolidated Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Group in independently administered funds.

2.19 Compensation for loss of office

Payments made to a director, senior executive or consultant relating to compensation for loss of office will be shown as part of the staffing costs for the year in which they are due.

2.20 Interest income

Interest income is recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

2.21 Taxation

Tax is recognised in the Consolidated Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company and the Group operate and generate income.

SEMAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.22 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

Research expenditure is written off in the period in which it is incurred.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

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

The directors make estimates and assumptions concerning the future based on their knowledge of the business and the markets it operates in. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results but the directors believe the estimates to be accurate based on available information at the point the estimate is made. Examples of situations where the company accounts include estimates include depreciation on computing equipment, impairment of capitalised development costs relative to the revenue anticipated from the work and dilapidation costs related to leased buildings.

The directors review and assess the fair value of ordinary A2 shares classified as debt at each year end based on the present value of the expected dividend stream. At the year end the financial instrument is included within the accounts at £667,347, split between creditors under and over 1 year.

4. Turnover

An analysis of turnover by class of business is as follows:

	2019 £	2018 £
Deployment and support	7,480,050	7,538,801
Licenses	7,561,220	5,323,697
Hardware	36,783	126,555
	<u>15,078,053</u>	<u>12,989,053</u>

SEMAFONE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

Analysis of turnover by country of destination:

	2019 £	2018 £
United Kingdom	8,030,711	7,253,675
Rest of Europe	173,164	236,713
Rest of the World	6,874,178	5,498,665
	15,078,053	12,989,053

5. Other operating income

	2019 £	2018 £
Rents receivable	63,999	-

6. Operating profit/(loss)

The operating profit/(loss) is stated after charging:

	2019 £	2018 £
Depreciation of tangible fixed assets	630,803	528,748
Depreciation of assets held under hire purchase	133,302	6,239
Amortisation of intangible assets	753,503	528,821
Impairment of intangible assets	165,681	-
Exchange differences	173,933	85,163
Operating lease rentals	561,208	512,260

7. Auditors' remuneration

	2019 £	2018 £
Fees payable to the Group's auditor and its associates for the audit of the Group's annual financial statements	15,000	13,500

SEMAFONE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

8. Employees

Staff costs, including directors' remuneration, were as follows:

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Wages and salaries	7,772,709	7,680,021	5,562,664	5,547,652
Social security costs	786,419	760,305	630,908	637,115
Cost of defined contribution scheme	313,291	286,118	246,749	232,110
	<u>8,872,419</u>	<u>8,726,444</u>	<u>6,440,321</u>	<u>6,416,877</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2019 No.	2018 No.
Operational	100	94
Senior Management	4	4
	<u>104</u>	<u>98</u>

The average number of employees for the Company, including directors, during the year was 82 (2018 - 79).

9. Directors' remuneration

	2019 £	2018 £
Directors' emoluments	431,247	304,036
Company contributions to defined contribution pension schemes	12,526	9,332
Compensation for loss of office	-	22,000
	<u>443,773</u>	<u>335,368</u>

During the year retirement benefits were accruing to 4 directors (2018 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £215,934 (2018 - £270,500, which includes an amount of £22,000 for compensation for loss of office).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £2,366 (2018 - £8,820).

During the year 1 director exercised share options (2018 - 0).

Redundancy payments of £NIL were made to a Director in the year (2018 - £22,000). The amount outstanding at 31 December 2019 was £NIL (2018 - £22,000).

SEMAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

10. Share based payment

Equity settled share based payment arrangements, in the form of share options, existed at the year end.

The share options relate to ordinary shares. The exercise price on all options granted up to 31 January 2014 is £0.28 per share. The exercise price on all options granted after 31 January 2014 is £0.62 per share. The exercise price on all B share options is £0.13 per share. All shares are equity based, options granted before the transition date have not been recognised in accordance with FRS102 section 35.

The total expense recognised during the year in respect of share based payments was £Nil (2018- £Nil) due to the fact that any expenses that were incurred were immaterial to the reported results in 2019 and 2018. Liabilities arising from share based payment transactions at the year end totalled £Nil (2018- £Nil).

The total vesting period for all options issued is five years, however the options are available to exercise in five separate and equal tranches on each anniversary of the grant date.

In determining the value of share options granted the company has adopted the three-tier measurement hierarchy set out in FRS102 s26.11. The share options granted by the company are not traded and so do not have an observable market price. In addition there is no company specific observable market data such as a recent transaction from which to derive the value of options granted. In the circumstances the company has adopted the Black-Scholes option pricing model and has used market data to the greatest extent possible as inputs for the model.

The assumptions used in the calculation are detailed below:

	Weighted average exercise price (pence) 2019	Number 2019	Weighted average exercise price (pence) 2018	Number 2018
Outstanding at the beginning of the year	35	235,631	41	171,657
Granted during the year	62	950	20	66,924
Exercised during the year	36	(61,642)	29	(2,260)
Lapsed during the year	22	(36,638)	62	(690)
Outstanding at the end of the year	38	138,301	35	235,631
			2019	2018
Exercise price (pence)			62	62
Weighted average contractual life (days)			3,650	3,650
Expected volatility			200%	200%
Expected dividend growth rate			1.31%	1.31%
Risk-free interest rate			1.2%	1.2%

SEMAFONE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

11. Interest receivable

	2019 £	2018 £
Other interest receivable	<u>6,430</u>	<u>1,623</u>

12. Interest payable and similar expenses

	2019 £	As restated 2018 £
Bank interest payable	151,239	55,143
Other loan interest payable	2,736	11,520
Preference share dividends	308,831	337,531
Finance leases and hire purchase contracts	26,712	1,401
	<u>489,518</u>	<u>405,595</u>

Interest on financial liabilities at fair value through profit or loss is £308,831 (2018: £337,531).

13. Taxation

	2019 £	2018 £
Corporation tax		
Current tax on profits for the year	(504,200)	(406,489)
Adjustments in respect of previous periods	(13,200)	-
Foreign tax on income for the year	28,663	30,623
Total current tax	<u>(488,737)</u>	<u>(375,866)</u>

SEMAFONE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

13. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2018 - lower than) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	2019 £	2018 £
Loss on ordinary activities before tax	<u>(227,846)</u>	<u>(1,159,294)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	(43,291)	(220,266)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	233,164	(971,847)
Depreciation for year in excess of capital allowances	17,482	26,954
Utilisation of tax losses	(3,259)	(672)
Higher rate taxes on overseas earnings	4,744	2,456
Adjustments to tax charge in respect of prior periods	(13,200)	-
Adjustment in research and development tax credit leading to a decrease in the tax charge	(685,932)	(465,010)
Changes in provisions leading to an increase in the tax charge	1,555	409
Unrelieved tax losses carried forward	-	1,252,110
Total tax charge for the year	<u><u>(488,737)</u></u>	<u><u>(375,866)</u></u>

Factors that may affect future tax charges

The company has estimated losses of £10,669,175 (2018 - £10,734,434) available to carry forward against future trading profits. The deferred tax asset on these losses, at a tax rate of 17%, is estimated at £1,813,760 (2018 - £1,824,854). No deferred tax asset has been recognised in these financial statements due to the uncertainty of the timing of the reversal of the losses.

14. Parent company profit for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements. The profit after tax of the parent Company for the year was £163,096 (2018 - loss £901,047).

SEMAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

15. Intangible assets

Group

	Patents £	Development £	Trademarks £	Computer software £	Total £
Cost					
At 1 January 2019	315,318	3,241,729	97,727	4,690	3,659,464
Additions	99,573	1,782,673	16,088	-	1,898,334
Disposals	(16,431)	(227,728)	-	-	(244,159)
At 31 December 2019	<u>398,460</u>	<u>4,796,674</u>	<u>113,815</u>	<u>4,690</u>	<u>5,313,639</u>
Amortisation					
At 1 January 2019	71,747	733,060	8,907	78	813,792
Charge for the year on owned assets	32,192	710,458	10,384	469	753,503
On disposals	(8,129)	(212,380)	-	-	(220,509)
Impairment charge	7,064	158,617	-	-	165,681
At 31 December 2019	<u>102,874</u>	<u>1,389,755</u>	<u>19,291</u>	<u>547</u>	<u>1,512,467</u>
Net book value					
At 31 December 2019	<u>295,586</u>	<u>3,406,919</u>	<u>94,524</u>	<u>4,143</u>	<u>3,801,172</u>
At 31 December 2018	<u>243,571</u>	<u>2,508,669</u>	<u>88,820</u>	<u>4,612</u>	<u>2,845,672</u>

SEMAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

15. Intangible assets (continued)

Company

	Patents £	Development £	Trademarks £	Computer software £	Total £
Cost					
At 1 January 2019	315,318	3,240,504	97,727	4,690	3,658,239
Additions	99,573	1,783,898	16,088	-	1,899,559
Disposals	(16,431)	(227,728)	-	-	(244,159)
At 31 December 2019	<u>398,460</u>	<u>4,796,674</u>	<u>113,815</u>	<u>4,690</u>	<u>5,313,639</u>
Amortisation					
At 1 January 2019	71,747	733,060	8,907	78	813,792
Charge for the year	32,192	710,458	10,384	469	753,503
On disposals	(8,129)	(212,380)	-	-	(220,509)
Impairment charge	7,064	158,617	-	-	165,681
At 31 December 2019	<u>102,874</u>	<u>1,389,755</u>	<u>19,291</u>	<u>547</u>	<u>1,512,467</u>
Net book value					
At 31 December 2019	<u>295,586</u>	<u>3,406,919</u>	<u>94,524</u>	<u>4,143</u>	<u>3,801,172</u>
At 31 December 2018	<u>243,571</u>	<u>2,507,444</u>	<u>88,820</u>	<u>4,612</u>	<u>2,844,447</u>

SEMAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

16. Tangible fixed assets

Group

	L/Term Leasehold Property £	Office equipment £	Computer equipment £	Total £
Cost or valuation				
At 1 January 2019	357,586	121,055	1,725,282	2,203,923
Additions	12,325	-	920,274	932,599
Disposals	-	(10,782)	(545)	(11,327)
Exchange adjustments	(469)	(265)	(10,049)	(10,783)
At 31 December 2019	<u>369,442</u>	<u>110,008</u>	<u>2,634,962</u>	<u>3,114,412</u>
Depreciation				
At 1 January 2019	103,829	53,535	647,834	805,198
Charge for the year on owned assets	72,450	37,677	520,676	630,803
Charge for the year on financed assets	-	-	133,302	133,302
Disposals	-	(7,261)	(545)	(7,806)
Exchange adjustments	(62)	(61)	(838)	(961)
At 31 December 2019	<u>176,217</u>	<u>83,890</u>	<u>1,300,429</u>	<u>1,560,536</u>
Net book value				
At 31 December 2019	<u>193,225</u>	<u>26,118</u>	<u>1,334,533</u>	<u>1,553,876</u>
At 31 December 2018	<u>253,757</u>	<u>67,520</u>	<u>1,077,448</u>	<u>1,398,725</u>

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2019 £	2018 £
Computer Equipment	688,268	106,069
	<u>688,268</u>	<u>106,069</u>

SEMAFONE LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2019

16. Tangible fixed assets (continued)

Company

	L/Term Leasehold Property £	Office equipment £	Computer equipment £	Total £
Cost or valuation				
At 1 January 2019	346,244	114,313	1,425,769	1,886,326
Additions	12,325	-	392,967	405,292
Disposals	-	(10,782)	(545)	(11,327)
At 31 December 2019	<u>358,569</u>	<u>103,531</u>	<u>1,818,191</u>	<u>2,280,291</u>
Depreciation				
At 1 January 2019	102,317	52,019	623,050	777,386
Charge for the year on owned assets	70,276	35,518	453,315	559,109
Charge for the year on financed assets	-	-	67,052	67,052
Disposals	-	(7,261)	(545)	(7,806)
At 31 December 2019	<u>172,593</u>	<u>80,276</u>	<u>1,142,872</u>	<u>1,395,741</u>
Net book value				
At 31 December 2019	<u>185,976</u>	<u>23,255</u>	<u>675,319</u>	<u>884,550</u>
At 31 December 2018	<u>243,927</u>	<u>62,294</u>	<u>802,719</u>	<u>1,108,940</u>

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2019 £	2018 £
Computer equipment	<u>167,278</u>	<u>106,069</u>
	<u>167,278</u>	<u>106,069</u>

SEMAFONE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

17. Fixed asset investments

Company

	Investments in subsidiary companies £
Cost or valuation	
At 1 January 2019	26,522
At 31 December 2019	<u>26,522</u>

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
Semafone Inc.	745 Atlantic Avenue, Boston, MA 02111, USA	Ordinary	100%
Semafone PTY Ltd	Essendon North, Vic, 3041, Australia	Ordinary	100%

18. Debtors

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Trade debtors	2,350,275	2,875,567	2,350,275	2,875,567
Amounts owed by group undertakings	-	-	-	43,145
Other debtors	930,936	1,544,659	879,628	1,363,882
Prepayments and accrued income	876,853	933,637	831,471	893,733
	<u>4,158,064</u>	<u>5,353,863</u>	<u>4,061,374</u>	<u>5,176,327</u>

19. Cash and cash equivalents

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Cash at bank and in hand	<u>2,395,919</u>	<u>2,741,641</u>	<u>2,352,296</u>	<u>2,626,957</u>

SEMAFONE LIMITED

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20. Creditors: Amounts falling due within one year

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Bank loans	1,246,153	1,085,630	1,246,153	1,085,630
Trade creditors	635,629	820,274	561,736	761,273
Amounts owed to group undertakings	-	-	49,611	85,608
Corporation tax	3,667	7,093	-	-
Other taxation and social security	484,319	468,640	481,178	465,845
Obligations under finance lease and hire purchase contracts	222,756	36,242	88,197	36,242
Accrual for cumulative fixed dividend	1,621,362	1,312,531	1,621,362	1,312,531
Other creditors	236,451	234,199	235,152	234,199
Accruals and deferred income	8,018,995	8,971,103	7,928,920	8,603,941
Ordinary A2 shares classified as debt	300,000	300,000	300,000	300,000
	<u>12,769,332</u>	<u>13,235,712</u>	<u>12,512,309</u>	<u>12,885,269</u>

Within Accruals and deferred income is £6,895,037 (2018 - £7,497,710) of deferred revenue. This represents customers paying in advance for the company's services. These are not ordinarily recoverable by the customers.

The accrual in respect of the cumulative fixed dividend becomes payable when the company has sufficient distributable reserves to do so. However, there is no unconditional right for the company to defer this payment, hence it is disclosed in Creditors: Amounts falling due within one year. Further disclosure of the terms and conditions attached to the ordinary A2 shares classified as debt is made in note 22.

The bank loan is secured against the assets of the company and comprises of a fixed term loan and a 3 month revolving loan facility. Interest is charged between 4.25% and 5.75% plus libor, plus the mandatory percentage applied by the bank.

SEMAFONE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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21. Creditors: Amounts falling due after more than one year

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Bank loans	547,873	865,386	547,873	865,386
Net obligations under finance leases and hire purchase contracts	276,786	56,382	57,797	56,382
Accruals and deferred income	2,150,725	2,304,531	2,150,725	2,304,531
Ordinary A2 shares classified as debt	367,347	367,347	367,347	367,347
	<u>3,342,731</u>	<u>3,593,646</u>	<u>3,123,742</u>	<u>3,593,646</u>

Further disclosure of the terms and conditions attached to the ordinary A2 shares classified as debt is made in note 22.

Within Accruals and deferred income is £2,150,725 (2018 - £2,304,531) of deferred revenue. This represents customers paying in advance for the company's services. These are not ordinarily recoverable by the customers.

The bank loan is secured against the assets of the company and comprises of a fixed term loan and a 3 month revolving loan facility. Interest charged is between 4.25% and 5.75% plus libor, plus the mandatory percentage applied by the bank.

No amounts are due in over 5 years.

22. Share capital

	2019 £	2018 £
Shares classified as equity		
Allotted, called up and fully paid		
467,726 (2018 - 406,084) Ordinary shares of £0.100 each	46,772	40,608
283,045 (2018 - 283,045) Ordinary A shares of £0.100 each	28,305	28,305
185,185 (2018 - 185,185) Ordinary A1 shares of £0.001 each	185	185
578,877 (2018 - 578,877) Ordinary A2 shares of £0.001 each	579	579
	<u>75,841</u>	<u>69,677</u>

The ordinary A2 shares are entitled to a cumulative fixed dividend. In accordance with FRS 102 an element of the equity is shown as debt, based on the present value of the expected dividend stream. The ordinary A2 shares were originally issued for £579 par value and £5,999,421 premium. On initial recognition £667,347 of this amount was classified as a liability and this amount was transferred from equity.

During the year, the company issued 47,522 ordinary shares at a price of £0.28 per share for total consideration of £13,306. During the year, the company issued 14,120 ordinary shares at a price of £0.62 per share for total consideration of £8,754. Both issues were as a result of employees exercising options as part of the share scheme.

SEMAFONE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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23. Financial instruments

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Financial liabilities				
Other financial liabilities measured at fair value through profit or loss	<u>(667,347)</u>	<u>(667,347)</u>	<u>(667,347)</u>	<u>(667,347)</u>

Other financial liabilities measured at fair value through profit and loss is in respect of Ordinary A2 shares classified as debt. The fair value of debt has been determined by the Directors, based on the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms and using such an interest rate to calculate dividends to perpetuity.

24. Reserves

Share premium account

The share premium account represents the premium arising on the issue of shares net of issue costs. The balance is also net of £667,347, which has been shown as debt, in accordance with FRS 102.

Foreign exchange reserve

The foreign exchange reserve represents translation differences arising from the translation of financial statements of the group's foreign entities into sterling (£).

Profit & loss account

The profit and loss account represents cumulative profits and losses net of dividends and other adjustments.

25. Prior year reclassification

A prior year reclassification adjustment has been posted within the Company and its subsidiaries to better reflect a more accurate cost of sales and interest costs related to loans with Clydesdale Bank. This has resulted in Administration Expenses in 2018 reducing by £2,842,303, Cost of Sales increasing by £2,787,794 and interest expense increasing by £54,509. The movement between Administration Expenses and Cost of Sales was calculated by apportioning costs according to the average headcount of employees in cost of sales and administration departments. There was no resulting effect on the profit before tax figure.

26. Pension commitments

The Group operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund and amounted to £313,291 (2018 - £286,118). Contributions totalling £50,277 (2018 - £40,796) were payable to the fund at the balance sheet date.

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27. Commitments under operating leases

At 31 December 2019 the Group and the Company had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Not later than 1 year	472,405	600,265	390,000	429,525
Later than 1 year and not later than 5 years	1,633,322	1,617,568	1,560,000	1,560,000
Later than 5 years	975,890	1,354,167	975,890	1,354,167
Total	<u>3,081,617</u>	<u>3,572,000</u>	<u>2,925,890</u>	<u>3,343,692</u>

28. Related party transactions

The Group has taken advantage of the exemption from disclosing transactions with wholly owned subsidiaries.

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