

SEMAFONE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

SEMAFONE LIMITED

COMPANY INFORMATION

Directors

M Havard
D Jackson
D Sear
W Gresty
M Ferguson
G Barnett
J Donaldson

Registered number

06963868

Registered office

Pannell House
Park Street
Guildford
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Independent auditors

Price Bailey LLP
Chartered Accountants & Statutory Auditors
24 Old Bond Street
London
W1S 4AP

SEMAFONE LIMITED

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SEMAFONE LIMITED

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Introduction

The widespread impact of the global health pandemic resulted in Semafone experiencing significant demand for its products and services. National lockdown and work from home orders meant businesses and public sector organisations had to shift at speed to remote working models and enable the majority of their customer/consumer transactions and interactions via voice and digital channels. Items purchased online or via contact centre services is an area that Semafone typically sees the highest demand for its products and the mass behavioural and operational changes engendered by COVID-19 led to more businesses and individuals purchasing goods and services online.

The rapid acceleration of digital transformation in the past 12 months has driven a significant uptick in omnichannel contact centre activities as organisations strove to serve customers in the channel of their choice. As a result, Semafone observed an escalation in demand for its solutions such as Cardprotect Relay+ which enables organisations to take secure payment solutions via email, chat, SMS and QR codes.

The business-critical need for agile remote operations created by the pandemic has also fuelled the contact centre sector's rapid adoption of private/public cloud and hybrid cloud solutions, which in turn stimulated demand for Semafone's cloud enabled solutions. In tandem with this evolution, contact centres are increasingly deploying Semafone's Intelligence+ solution to utilise real-time data insights and business analytics to optimise their operations and deliver an enhanced customer experience.

As a result, revenues and customer numbers have grown across the business with a significant contribution in sales bookings from North America. Activity in Australia ramped up significantly from a low base. This was particularly notable for existing end customers, again as a result of lockdown restrictions pushing business online, although this has continued as restrictions have eased. The business has also made significant advances in the automation of its deployments and software updates. This has allowed it to reduce headcount in deployment related areas in favour of new recruitment in product development and related areas.

Business review

The principal activity of the group continues to be the development and distribution of software that enables contact centre agents to either take payments over the phone and secure their customers' personal data or for those same agents to use digital based media to take payments securely.

As a result of the restrictions imposed by governments in relation to people movements during COVID-19, we have seen increased interest in all our products as they allow businesses to maintain Payment Card Industry Data Security Standard (PCI DSS) compliance for a distributed workforce that would traditionally be located in localised contact centres.

We have expanded the range of datasets captured in our voice service to include personal information, personal banking information, gift, reward and store cards, and are seeing good traction for these services. 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 our 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.

Further detail on use cases for our omnichannel products are outlined below in the Strategic Report and in the Future Developments section of this report. These solutions support distributed working situations versus the traditional contact centre setup and are proving to be of strategic importance for both contact centre providers as well as end customers.

The business has reported a profit after tax for 2020 of £1,261,699. The principal 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 £3,821,847. Both these measures demonstrate one of the most successful periods of trading, especially in such a challenge macro-economic environment, and reflects the success the business is currently experiencing as a result of continued investment in the development of its products and routes to market.

SEMAFONE LIMITED

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

Our historical strategy has been to focus on direct sales to larger enterprise customers in certain key industry verticals with indirect sales building key relationships with channel partners. Sales in the UK market are now almost exclusively via channel partners with no significant sales deployed as on-premises solutions. The US market, whilst behind the UK market in terms of maturity, is starting to catch up with the UK, particularly after a one off revenue recognition of £1.1m is removed from the 2019 US results. 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. Today Semafone's channel model incorporates OEMs such as BT, solution resellers, and cloud-based software platform providers who deliver as Unified Communications-as-a-Service (UCaaS) and Contact Centre-as-a-Service (CCaaS) solutions to customers. These partners deploy Semafone's products either via CCaaS, UCaaS, OEM or as a Telco deployment.

In 2020, Semafone introduced a Customer Success Team, featuring personnel in the US and UK who are dedicated to providing a holistic approach to customer care. The initiative represents a key strategic move to improve and increase customer retention rates and further differentiate us from competitors. As well as managing the end-to-end customer journey (from onboarding to ongoing support, upselling and renewals) and ensuring that customers achieve long-term value from their Semafone solutions and services, the Customer Success Team engage with customers through regular business reviews designed to help customers achieve their wider business goals and are becoming trusted advisors to customers in the areas of security, compliance and omnichannel customer experience.

In 2020 we offered the following products and services to address a variety of customer need areas:

- Cloud offering for our Cardprotect Voice+ product in the US market to include pure cloud and hybrid cloud. Designed for organisations that want to experience the benefits of cloud while maintaining control of their on-premises telephony systems, our hybrid cloud solutions include Rushmore (a pre-configured managed appliance that enables the fast deployment of hybrid cloud) and Rainier (a fully supported hardware appliance that offers a low-cost route to the cloud).
- Protecting businesses from capturing other sensitive data sets in addition to customer payment card data which is Semafone's traditional product;
- Omnichannel product Cardprotect Relay+ protecting payments via e-commerce, mobile commerce, SMS, and webchat;
- Secure payment solutions for customers with special accessibility needs enabled by the use of speech recognition technology. Making secure PCI DSS compliant payments accessible to all, Semafone Speech Recognition ensures that those who are unable to use a telephone keypad to enter their payment details are no longer disadvantaged or diverted away from the agent they are currently speaking with;
- Semafone Intelligence+, a real-time, customisable data analytics platform which provides customers with meaningful insight into the performance and use of Semafone's solutions across their contact centre; and
- Semafone Scout+, our device and network monitoring tool gives customers' complete visibility of their entire Cardprotect Voice+ environment.

SEMAFONE LIMITED

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

Principal risks and uncertainties

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

In addition, the company has found that the time period from initial engagement of a potential customer to contracting and in turn the installation of Semafone's services can vary significantly and often be unpredictable. This can make it difficult for Semafone to accurately forecast all revenue and schedule resourcing. To mitigate this Semafone is adopting stricter qualification criteria for all opportunities and updating potential customers on ultimate timelines for implementation should contracting with Semafone be delayed.

The group is encouraged by 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 13% from 2019 to 2020. The UK region grew by 24% and the North American market by 15% (excluding one-off customer related income of £1.11M in 2019). 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:

	2020 £	2019 £
Non-GAAP measure - EBITDA		
Profit after tax	1,261,699	260,891
Adjustments for:		
Taxation	(117,145)	(488,737)
Interest receivable	(1,854)	(6,430)
Interest payable	551,775	489,518
Impairment of intangible fixed assets	-	165,681
Amortisation of intangible fixed assets	1,179,323	753,503
Depreciation of tangible fixed assets	948,049	761,614
	<u>3,821,847</u>	<u>1,936,040</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 2020 at MRR of £1,216,311;
- Total Contract Value for new deals signed; which totalled £9,804,320 in 2020 and is forecast at £11,467,417 in 2021;
- Sales pipeline including New Order Bookings which exited 2020 for 2021 at £10,116,226;
- Deployment Services Order Book and utilisation of Deployment Services resources, which totalled £921,829 of unbilled revenue in hand at the end of 2020 with utilisation of staff running at an average of 80% during 2020; and
- Management of working capital which we principally measure through cashflow projections.

SEMAFONE LIMITED

**GROUP STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020**

Other key performance indicators

The global headcount currently stands at 92, compared to 109 people (FTE) at the start of the year. Some resource restructuring was conducted during 2020. This was as a result of more automation of deployments being possible, reducing the need for headcount-intensive resource in this area. The company has also improved its patching and updating processes for its products which again allowed some reduction in headcount. Coming into 2021 the business is again investing in new resources in key areas to help support and drive top line revenue growth.

Following the introduction of our new Customer Success Team, Semafone conducted its first ever NPS survey with our customer base. The results were excellent, with an NPS score of 64 and the plan is to conduct the survey quarterly going forward. In tandem with this, we also undertook our first NPS survey with our channel partners – and the results were similarly impressive with an NPS score of 80.

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

G Barnett

Director

Date: 4 May 2021

SEMAFONE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors present their report and the financial statements for the year ended 31 December 2020.

Directors

The Directors who served during the year were:

M Havard
D Jackson
D Sear
W Gresty
M Ferguson
G Barnett
J Donaldson

Principal activity

The principal activity of the company is the development and distribution of software that enables call centres, which take payments over the phone or via omnichannel (SMS and email, agent webchat, instant messaging and social media etc), to eliminate agent fraud and the 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 DSS compliance for a distributed workforce that would traditionally be located in localised contact centres. Our products significantly reduce the costs for companies to comply with PCI DSS, and substantially reduces the risk to them of inadvertently storing their customers' personal information. Our customers are increasingly using Semafone solutions in a broader context and the company is working with these organisations to secure other items of sensitive personal data processed 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 2020

Results and dividends

The profit for the year, after taxation, amounted to £1,261,699 (2019 - £260,891).

No dividends were paid during the year (2019 - £Nil).

Future developments

The company continues to increase the breadth and reach of its secure payment 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 products commercially available and aimed at a number of different areas:

- Protecting businesses from capturing other sensitive data sets in addition to customer payment card data which is Semafone's traditional Cardprotect Voice+ product. These include but are not limited to bank account and sort code, personal information such as social security numbers, medical information or PIN codes;
- Secure payment solutions associated with payments made through "omnichannel" from the contact centre. This product is named Cardprotect 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; and
 - QR code.
- 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 Semafone Speech Recognition;
- Cloud and appliance-based delivery of Cardprotect Voice+ services. Traditionally Semafone deployed services on the customer's premises. Increasingly customers are adopting cloud-based services and Semafone is able to deploy Cardprotect Voice+ in a variety of hybrid or fully cloud based architectures;
- Network and device monitoring solution with alerts, named Semafone Scout+; and
- Other secure authentication tools designed for anticipated regulation in the Financial Services arena.

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

SEMAFONE LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

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:

- Monitoring various Key Performance Indicators (KPI's) within the business that identify employee utilisation, monthly attrition, speed of deployments and discussing trends; putting in place rectification plans if necessary;
- Implementing a VSPE (Vision, Strategy, Planning, Execution) process that articulates the vision and mission statement from the Board (evaluated annually). This is then cascaded to the business strategy which is reviewed every six 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 conference call to the whole organisation, during which personnel can discuss initiatives and ask questions. This approach enhances employee understanding at all levels of the process and what each group within the business ultimately contributes towards the Board vision;
- Semafone has developed a Semafone Solutions Lifecycle Process (SSLP) which allows all stakeholders within the business to discuss viability of new products and end-of-life for existing products. The Board and Directors participate in the discussions and approvals contained within this process which provides the Board with 'bottom up' real-world insights and understanding from employees about both 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) during which financial performance, sales activity, delivery of projects, new products and ideas and other activities are discussed. Run by the Executive Directors these events keep employees up to date with all aspects of the business;
- 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 (NPS) survey is conducted across the company during the six-month review of staff and the results and proposed actions shared with the Board; and
- The Board receives a monthly Board report from each Executive group in Semafone. This includes an update from the Human Resources function highlighting any employee related issues and suggested actions.

SEMAFONE LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020**

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 ongoing disruption to people and businesses owing to the continued spread of the COVID-19 virus and the associated difficulty businesses have when dealing with each other. Currently Semafone has seen no downturn to its sales activities nor to its relationships with existing customers and suppliers. Further information on planned activities by Semafone for this situation can be found in note 2.3 on page 20.

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: 4 May 2021

SEMAFONE LIMITED

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 2020, 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 2020 and of the Group's profit 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's or the parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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

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.

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 set out on page 5, 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.

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

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 Group financial statements

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates and considered the risk of the company not complying with the applicable laws and regulations including fraud in particular those that could have a material impact on the financial statements. This included those regulations directly related to the financial statements, including financial reporting, tax legislation and distributable profits. In relation to the industry this included PCI compliance, employment law and health & safety.

The risks were discussed with the audit team and we remained alert to any indications of non-compliance throughout the audit. We carried out specific procedures to address the risks identified. As follows:

- Review of legal fees incurred;
- Agreeing the financial statement disclosures to underlying supporting documentation;
- Enquiring of management including those responsible for the key regulations;
- Agreeing compliance certificates and validations
- Reviewing the key accounting policies and estimates

To address the risk of management override of controls, we carried out testing of journal entries and other adjustments for appropriateness, and evaluating the business rationale of significant transactions outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance.

The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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, 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 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, as a body, 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

24 Old Bond Street
London
W1S 4AP

10 May 2021

SEMAFONE LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Note	2020 £	2019 £
Turnover	4	17,028,606	15,078,053
Cost of sales		<u>(4,827,792)</u>	<u>(3,945,866)</u>
Gross profit		12,200,814	11,132,187
Administrative expenses		(10,682,690)	(10,940,944)
Other operating income	5	<u>176,351</u>	<u>63,999</u>
Operating profit	6	1,694,475	255,242
Interest receivable and similar income	11	1,854	6,430
Interest payable and expenses	12	<u>(551,775)</u>	<u>(489,518)</u>
Profit/(loss) before taxation		1,144,554	(227,846)
Tax on profit/(loss)	13	<u>117,145</u>	<u>488,737</u>
Profit for the financial year		<u><u>1,261,699</u></u>	<u><u>260,891</u></u>
Currency translation differences		(4,271)	3,045
Total comprehensive income for the year		<u><u>1,257,428</u></u>	<u><u>263,936</u></u>

The notes on pages 19 to 42 form part of these financial statements.

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

	2020 £	2019 £
Non-GAAP measure - EBITDA		
Profit after tax	1,261,699	260,891
Adjustments for:		
Taxation	(117,145)	(488,737)
Interest receivable	(1,854)	(6,430)
Interest payable	551,775	489,518
Impairment of intangible fixed assets	-	165,681
Amortisation of intangible fixed assets	1,179,323	753,503
Depreciation of tangible fixed assets	<u>948,049</u>	<u>761,614</u>
	<u><u>3,821,847</u></u>	<u><u>1,936,040</u></u>

SEMAFONE LIMITED
REGISTERED NUMBER: 06963868

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2020

	Note	2020 £	2019 £
Fixed assets			
Intangible assets	15	4,291,738	3,801,172
Tangible assets	16	1,540,186	1,553,876
		5,831,924	5,355,048
Current assets			
Debtors: amounts falling due within one year	18	4,968,714	4,158,064
Cash at bank and in hand	19	3,409,752	2,395,919
		8,378,466	6,553,983
Creditors: amounts falling due within one year	20	(14,710,123)	(12,769,332)
Net current liabilities		(6,331,657)	(6,215,349)
Total assets less current liabilities		(499,733)	(860,301)
Creditors: amounts falling due after more than one year	21	(2,300,364)	(3,342,731)
Provisions for liabilities			
Other provisions	24	(127,342)	-
		(127,342)	-
Net liabilities		(2,927,439)	(4,203,032)
Capital and reserves			
Called up share capital	22	80,236	75,841
Share premium account	25	8,458,579	8,444,809
Foreign exchange reserve	25	(819)	3,452
Profit and loss account	25	(11,465,435)	(12,727,134)
		(2,927,439)	(4,203,032)

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

G Barnett

Director

Date: 4 May 2021

The notes on pages 19 to 42 form part of these financial statements.

SEMAFONE LIMITED
REGISTERED NUMBER: 06963868

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2020

	Note	2020 £	2019 £
Fixed assets			
Intangible assets	15	4,291,738	3,801,172
Tangible assets	16	451,690	884,550
Investments	17	26,522	26,522
		4,769,950	4,712,244
Current assets			
Debtors: amounts falling due within one year	18	4,875,783	4,061,374
Cash at bank and in hand	19	3,245,365	2,352,296
		8,121,148	6,413,670
Creditors: amounts falling due within one year	20	(14,241,032)	(12,512,309)
Net current liabilities		(6,119,884)	(6,098,639)
Total assets less current liabilities		(1,349,934)	(1,386,395)
Creditors: amounts falling due after more than one year	21	(1,932,394)	(3,123,742)
Provisions for liabilities			
Other provisions	24	(127,342)	-
		(127,342)	-
Net liabilities		(3,409,670)	(4,510,137)
Capital and reserves			
Called up share capital	22	80,236	75,841
Share premium account	25	8,458,579	8,444,809
Profit and loss account	25	(11,948,485)	(13,030,787)
		(3,409,670)	(4,510,137)

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

G Barnett
Director

Date: 4 May 2021

The notes on pages 19 to 42 form part of these financial statements.

SEMAFONE LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Called up share capital £	Share premium account £	Foreign exchange reserve £	Profit and loss account £	Total equity £
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 1 January 2020	75,841	8,444,809	3,452	(12,727,134)	(4,203,032)
Profit for the year	-	-	-	1,261,699	1,261,699
Movement in foreign exchange	-	-	(4,271)	-	(4,271)
Total comprehensive income for the year	-	-	(4,271)	1,261,699	1,257,428
Shares issued during the year	4,395	13,770	-	-	18,165
At 31 December 2020	<u>80,236</u>	<u>8,458,579</u>	<u>(819)</u>	<u>(11,465,435)</u>	<u>(2,927,439)</u>

The notes on pages 19 to 42 form part of these financial statements.

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Called up share capital £	Share premium account £	Profit and loss account £	Total equity £
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 1 January 2020	75,841	8,444,809	(13,030,787)	(4,510,137)
Profit for the year	-	-	1,082,302	1,082,302
Total comprehensive income for the year	-	-	1,082,302	1,082,302
Shares issued during the year	4,395	13,770	-	18,165
At 31 December 2020	<u>80,236</u>	<u>8,458,579</u>	<u>(11,948,485)</u>	<u>(3,409,670)</u>

The notes on pages 19 to 42 form part of these financial statements.

SEMAFONE LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020**

	2020 £	2019 £
Cash flows from operating activities		
Profit for the financial year	1,261,699	260,891
Adjustments for:		
Amortisation of intangible assets	1,179,323	753,503
Depreciation of tangible assets	955,406	764,105
Impairments of fixed assets	-	165,681
Loss on disposal of tangible assets	5,095	27,171
Interest paid	551,775	489,518
Interest received	(1,854)	(6,430)
Taxation charge	(117,145)	(488,737)
(Increase)/decrease in debtors	(1,250,194)	656,358
Increase/(decrease) in creditors	124,532	(795,008)
Increase in provisions	127,342	-
Corporation tax received	538,504	1,043,641
Net cash generated from operating activities	<u>3,374,483</u>	<u>2,870,693</u>
Cash flows from investing activities		
Purchase of intangible fixed assets	(1,674,575)	(1,898,334)
Purchase of tangible fixed assets	(944,242)	(932,599)
Sale of tangible fixed assets	1,300	-
Interest received	1,854	6,430
Net cash from investing activities	<u>(2,615,663)</u>	<u>(2,824,503)</u>
Cash flows from financing activities		
Issue of ordinary shares	18,165	22,060
New secured loans	1,000,000	-
Repayment of loans	(266,678)	(246,152)
Repayment of/new finance leases	(250,076)	-
Interest paid	(193,748)	(153,975)
HP interest paid	(49,196)	(26,712)
Net cash used in financing activities	<u>258,467</u>	<u>(404,779)</u>
Net increase/(decrease) in cash and cash equivalents	<u>1,017,287</u>	<u>(358,589)</u>
Cash and cash equivalents at beginning of year	2,395,919	2,741,641
Foreign exchange gains and losses	(3,454)	12,867
Cash and cash equivalents at the end of year	<u><u>3,409,752</u></u>	<u><u>2,395,919</u></u>
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	<u><u>3,409,752</u></u>	<u><u>2,395,919</u></u>

SEMAFONE LIMITED

**CONSOLIDATED ANALYSIS OF NET DEBT
FOR THE YEAR ENDED 31 DECEMBER 2020**

	At 1 January 2020 £	Cash flows £	New finance leases / HP agreements £	Other non-cash changes £	At 31 December 2020 £
Cash at bank and in hand	2,395,919	1,017,287	-	(3,454)	3,409,752
Debt due after 1 year	(915,220)	-	-	(584,831)	(1,500,051)
Debt due within 1 year	(1,546,153)	(733,322)	-	569,195	(1,710,280)
Finance leases / HP agreements	(499,542)	299,272	(501,558)	(49,196)	(751,024)
	<u>(564,996)</u>	<u>583,237</u>	<u>(501,558)</u>	<u>(68,286)</u>	<u>(551,603)</u>

The notes on pages 19 to 42 form part of these financial statements.

SEMAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020

2. Accounting policies (continued)

2.3 Going concern

The Group has significant cash at bank which has increased steadily during 2020. In addition, its products are now largely developed with revenue increasing, and with significant profit, EBITDA and cash generated in 2020, one of its most successful years to date. The business expects this to continue into 2021 and beyond.

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, which has extended this facility further, although Semafone has not drawn down all available funds. In addition, £6,960,318 of the balance within Creditors – Amounts due within one 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 one year are dividends and associated fees totalling £2,398,943. 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. Creditors further include A2 shares classified as debt under FRS102, totalling £667,347, of which £300,000 is shown as amounts due within one year. The Directors remain confident that the Group will continue to have the resources for the next twelve months and beyond to deliver sustainable profit in the medium-term period.

The uncertainty as to the future impact on the Group of the ongoing COVID-19 outbreak in particular has been considered as part of the Group's adoption of the going concern basis. 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, US, Canada and Australia went into lockdown which are already being delivered remotely. A number of our product offerings cater specifically to maintaining PCI DSS compliance for remote working environments. In addition, 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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;
- the costs incurred and the costs to complete the contract can be measured reliably.

Annual license sales are invoiced, and monies are received, according to one of two possible scenarios:

- Annually in advance, with monies received shortly thereafter, ahead of the year in question. The revenue recognition is deferred until the client's system is operational, when the revenue is released evenly over the year, or
- On execution of contract. Monies are received shortly after invoicing and revenue is released evenly over the year from date of execution.

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.

Cardprotect Relay+ can be sold to the customer in three consumption methods:

- Pay as you go (PAYG);
- Commitment-based sale; and
- Outright sale.

The revenue recognition on a PAYG sale is comprised of a monthly invoice to the customer based on the number of links that customer issues.

The revenue recognition for a commitment-based sale is comprised of a monthly invoice to the customer based on the number of links that customer issues until the period end to which the commitment relates is reached. At that point any shortfall between links issued and commitment made is invoiced to the customer and the revenue recognised.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

2. Accounting policies (continued)

2.4 Turnover (continued)

The revenue recognition for an outright sale is comprised of an invoice for the number of links bought outright and all revenue is immediately recognised as there is no ongoing obligation from Semafone to the customer.

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
Domains	-	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 profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020

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 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants of a revenue nature are recognised in the Consolidated Statement of Comprehensive Income in the same period as the related expenditure.

Furlough income, which is a grant awarded by the government, is recognised in income over the periods in which the company recognises the related costs for which the grant is intended to compensate.

2.14 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.

2.15 Finance costs

Finance costs are charged to profit or loss 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2. Accounting policies (continued)

2.16 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.

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).

2.17 Operating leases

Rentals paid under operating leases are charged to profit or loss 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.

2.18 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 profit or loss so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

2.19 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 profit or loss 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.

2.20 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.

2.21 Interest income

Interest income is recognised in profit or loss using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2. Accounting policies (continued)

2.22 Provisions for liabilities

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the Group becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2.23 Taxation

Tax is recognised in profit or loss 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.

2.24 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 and amortisation on fixed assets, 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.

SEMAFONE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

4. Turnover

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

	2020 £	2019 £
Deployment and support	7,842,881	7,480,050
Licences	8,155,140	7,561,220
Hardware	473,856	36,783
Omnichannel revenue	556,729	-
	<u>17,028,606</u>	<u>15,078,053</u>

Analysis of turnover by country of destination:

	2020 £	2019 £
United Kingdom	10,045,712	8,030,711
Rest of Europe	51,231	173,164
Rest of the World	6,931,663	6,874,178
	<u>17,028,606</u>	<u>15,078,053</u>

5. Other operating income

	2020 £	2019 £
Other operating income	594	-
Rents receivable	122,455	63,999
Government grants receivable	53,302	-
	<u>176,351</u>	<u>63,999</u>

SEMAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

6. Operating profit

The operating profit is stated after charging:

	2020	2019
	£	£
Depreciation of tangible fixed assets	641,769	630,803
Depreciation of assets held under hire purchase	306,280	133,302
Amortisation of intangible assets	1,179,323	753,503
Impairment of intangible assets	-	165,681
Exchange differences	28,478	173,933
Operating lease rentals	468,034	561,208
Government grants	<u>(53,302)</u>	<u>-</u>

7. Auditors' remuneration

	2020	2019
	£	£
Fees payable to the Group's auditor and its associates for the audit of the Group's annual financial statements	<u>22,000</u>	<u>15,000</u>

8. Employees

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

	Group 2020	Group 2019	Company 2020	Company 2019
	£	£	£	£
Wages and salaries	8,737,711	7,772,709	6,139,271	5,562,664
Social security costs	856,621	786,419	702,016	630,908
Cost of defined contribution scheme	331,221	313,291	260,227	246,749
	<u>9,925,553</u>	<u>8,872,419</u>	<u>7,101,514</u>	<u>6,440,321</u>

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

	2020	2019
	No.	No.
Operational	89	100
Senior Management	8	4
	<u>97</u>	<u>104</u>

The average monthly number of employees for the Company, including directors, during the year was 89 (2019 - 82).

SEMAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

9. Directors' remuneration

	2020 £	2019 £
Directors' emoluments	590,922	431,247
Company contributions to defined contribution pension schemes	16,270	12,526
	<u>607,192</u>	<u>443,773</u>

During the year retirement benefits were accruing to 3 Directors (2019 - 4) in respect of defined contribution pension schemes.

The highest paid Director received remuneration of £360,922 (2019 - £215,934).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £6,570 (2019 - £2,366).

During the year no director exercised share options (2019 - 1).

SEMAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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 and up to 31 December 2019 is £0.62 per share. The exercise price on all options granted after 1 January 2020 is £3.75 per share. The exercise price on all B share options is £0.13 per share up to 31 December 2019. The exercise price on all B share options from 1 January 2020 is £1.80 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 (2019 - £Nil) due to the fact that any expenses that were incurred were immaterial to the reported results in 2020 and 2019. Liabilities arising from share based payment transactions at the year end totalled £Nil (2019- £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) 2020	Number 2020	Weighted average exercise price (pence) 2019	Number 2019
Outstanding at the beginning of the year	38	138,301	35	235,631
Granted during the year	91	54,928	62	950
Exercised during the year	41	(43,939)	36	(61,642)
Lapsed during the year	24	(14,578)	22	(36,638)
Outstanding at the end of the year	60	134,712	38	138,301
			2020	2019
Exercise price (pence)			375	62
Weighted average contractual life (days)			3,650	3,650
Expected volatility			111%	200%
Expected dividend growth rate			1.11%	1.31%
Risk-free interest rate			0.93%	1.20%

SEMAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

11. Interest receivable

	2020 £	2019 £
Other interest receivable	<u>1,854</u>	<u>6,430</u>

12. Interest payable and similar expenses

	2020 £	2019 £
Bank interest payable	189,681	151,239
Other loan interest payable	4,067	2,736
A2 share dividends	308,831	308,831
Finance leases and hire purchase contracts	49,196	26,712
	<u>551,775</u>	<u>489,518</u>

Interest on financial liabilities at fair value through profit or loss is £308,831 (2019: £308,831).

13. Taxation

	2020 £	2019 £
Corporation tax		
Current tax on profits for the year	(98,960)	(504,200)
Adjustments in respect of previous periods	(24,969)	(13,200)
Foreign tax on income for the year	6,784	28,663
Total current tax	<u>(117,145)</u>	<u>(488,737)</u>

SEMAFONE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

13. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2019 - lower than) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £	2019 £
Profit/(loss) on ordinary activities before tax	<u>1,144,554</u>	<u>(227,846)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	217,465	(43,291)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	247,942	233,164
Depreciation for year in excess of capital allowances	58,523	17,482
Utilisation of tax losses	(23,804)	(3,259)
(Lower)/higher taxes on overseas earnings	(28,449)	4,744
Adjustments to tax charge in respect of prior periods	(24,969)	(13,200)
Adjustment in research and development tax credit leading to a decrease in the tax charge	(586,396)	(685,932)
Changes in provisions leading to an increase in the tax charge	22,710	1,555
Other differences leading to a decrease in the tax charge	(167)	-
Total tax charge for the year	<u>(117,145)</u>	<u>(488,737)</u>

Factors that may affect future tax charges

The company has estimated losses of £10,534,063 available to carry forward against future trading profits. The deferred tax asset on these losses, in addition to the timing differences on provisions and capital allowances, at a tax rate of 19%, is estimated at £2,044,758.

Capitalised development costs have also created timing differences in respect of tax. The company has an estimated deferred tax liability, at 19%, of £720,916. As there is sufficient uncertainty as to when any excess tax losses above the deferred tax liability will materialise, the excess asset has not been recognised.

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 £1,082,302 (2019 - £163,096).

SEMAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

15. Intangible assets

Group

	Patents £	Development £	Trademarks £	Domains £	Total £
Cost					
At 1 January 2020	398,460	4,796,674	113,815	4,690	5,313,639
Additions	149,607	1,519,644	5,324	-	1,674,575
Disposals	-	(4,686)	-	-	(4,686)
At 31 December 2020	<u>548,067</u>	<u>6,311,632</u>	<u>119,139</u>	<u>4,690</u>	<u>6,983,528</u>
Amortisation					
At 1 January 2020	102,874	1,389,755	19,291	547	1,512,467
Charge for the year on owned assets	39,556	1,127,582	11,716	469	1,179,323
At 31 December 2020	<u>142,430</u>	<u>2,517,337</u>	<u>31,007</u>	<u>1,016</u>	<u>2,691,790</u>
Net book value					
At 31 December 2020	<u>405,637</u>	<u>3,794,295</u>	<u>88,132</u>	<u>3,674</u>	<u>4,291,738</u>
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>

SEMAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

15. Intangible assets (continued)

Company

	Patents £	Development £	Trademarks £	Domains £	Total £
Cost					
At 1 January 2020	398,460	4,796,674	113,815	4,690	5,313,639
Additions	149,607	1,519,644	5,324	-	1,674,575
Disposals	-	(4,686)	-	-	(4,686)
At 31 December 2020	<u>548,067</u>	<u>6,311,632</u>	<u>119,139</u>	<u>4,690</u>	<u>6,983,528</u>
Amortisation					
At 1 January 2020	102,874	1,389,755	19,291	547	1,512,467
Charge for the year	39,556	1,127,582	11,716	469	1,179,323
At 31 December 2020	<u>142,430</u>	<u>2,517,337</u>	<u>31,007</u>	<u>1,016</u>	<u>2,691,790</u>
Net book value					
At 31 December 2020	<u>405,637</u>	<u>3,794,295</u>	<u>88,132</u>	<u>3,674</u>	<u>4,291,738</u>
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>

SEMAFONE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

16. Tangible fixed assets

Group

	Leasehold Property £	Office equipment £	Computer equipment £	Total £
Cost or valuation				
At 1 January 2020	369,442	110,008	2,634,962	3,114,412
Additions	-	-	944,242	944,242
Disposals	-	-	(17,682)	(17,682)
Exchange adjustments	648	234	(28,716)	(27,834)
At 31 December 2020	370,090	110,242	3,532,806	4,013,138
Depreciation				
At 1 January 2020	176,217	83,890	1,300,429	1,560,536
Charge for the year on owned assets	73,859	25,167	550,100	649,126
Charge for the year on financed assets	-	-	306,280	306,280
Disposals	-	-	(15,973)	(15,973)
Exchange adjustments	374	237	(27,628)	(27,017)
At 31 December 2020	250,450	109,294	2,113,208	2,472,952
Net book value				
At 31 December 2020	119,640	948	1,419,598	1,540,186
At 31 December 2019	193,225	26,118	1,334,533	1,553,876

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

	2020 £	As restated 2019 £
Computer Equipment	754,490	564,352

SEMAFONE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

16. Tangible fixed assets (continued)

Company

	Leasehold Property £	Office equipment £	Computer equipment £	Total £
Cost or valuation				
At 1 January 2020	358,569	103,531	1,818,191	2,280,291
Additions	-	-	83,296	83,296
Disposals	-	-	(16,884)	(16,884)
At 31 December 2020	<u>358,569</u>	<u>103,531</u>	<u>1,884,603</u>	<u>2,346,703</u>
Depreciation				
At 1 January 2020	172,593	80,276	1,142,872	1,395,741
Charge for the year on owned assets	71,713	23,027	336,465	431,205
Charge for the year on financed assets	-	-	84,040	84,040
Disposals	-	-	(15,973)	(15,973)
At 31 December 2020	<u>244,306</u>	<u>103,303</u>	<u>1,547,404</u>	<u>1,895,013</u>
Net book value				
At 31 December 2020	<u>114,263</u>	<u>228</u>	<u>337,199</u>	<u>451,690</u>
At 31 December 2019	<u>185,976</u>	<u>23,255</u>	<u>675,319</u>	<u>884,550</u>

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

	2020 £	2019 £
Computer equipment	<u>83,238</u>	<u>167,278</u>

SEMAFONE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

17. Fixed asset investments

Company

	Investments in subsidiary companies £
Cost or valuation	
At 1 January 2020	26,522
At 31 December 2020	<u>26,522</u>

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
Semafone Inc.	444 E 3rd Street, PO Box 462, Boston, MA 02127, USA	Ordinary	100%
Semafone PTY Ltd	C/- Abnaustralia.com.au, Level 1, 8 Beulah Road, Norwood, SA 5067, Australia	Ordinary	100%

18. Debtors

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Trade debtors	3,558,830	2,350,275	3,558,830	2,350,275
Other debtors	494,870	930,936	462,971	879,628
Prepayments and accrued income	915,014	876,853	853,982	831,471
	<u>4,968,714</u>	<u>4,158,064</u>	<u>4,875,783</u>	<u>4,061,374</u>

19. Cash and cash equivalents

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Cash at bank and in hand	<u>3,409,752</u>	<u>2,395,919</u>	<u>3,245,365</u>	<u>2,352,296</u>

SEMAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

20. Creditors: Amounts falling due within one year

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Bank loans	1,410,280	1,246,153	1,410,280	1,246,153
Trade creditors	836,396	635,629	694,374	561,736
Amounts owed to group undertakings	-	-	229,607	49,611
Corporation tax	691	3,667	-	-
Other taxation and social security	915,478	484,319	912,080	481,178
Obligations under finance lease and hire purchase contracts	383,054	222,756	57,239	88,197
Accrual for cumulative fixed dividend	1,930,193	1,621,362	1,930,193	1,621,362
Other creditors	235,659	236,451	229,575	235,152
Accruals and deferred income	8,698,372	8,018,995	8,477,684	7,928,920
Ordinary A2 shares classified as debt	300,000	300,000	300,000	300,000
	<u>14,710,123</u>	<u>12,769,332</u>	<u>14,241,032</u>	<u>12,512,309</u>

Within Accruals and deferred income is £6,960,318 (2019 - £6,895,037) 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 charged is between 4.25% and 5.75% plus libor.

SEMAFONE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

21. Creditors: Amounts falling due after more than one year

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Bank loans	1,132,704	547,873	1,132,704	547,873
Net obligations under finance leases and hire purchase contracts	367,970	276,786	-	57,797
Accruals and deferred income	432,343	2,150,725	432,343	2,150,725
Ordinary A2 shares classified as debt	367,347	367,347	367,347	367,347
	<u>2,300,364</u>	<u>3,342,731</u>	<u>1,932,394</u>	<u>3,123,742</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 £432,343 (2019 - £2,150,725) 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.

No amounts are due in over 5 years.

22. Share capital

	2020 £	2019 £
Shares classified as equity		
Allotted, called up and fully paid		
511,665 (2019 - 467,724) Ordinary shares of £0.100 each	51,167	46,772
283,045 (2019 - 283,045) Ordinary A shares of £0.100 each	28,305	28,305
185,185 (2019 - 185,185) Ordinary A1 shares of £0.001 each	185	185
578,877 (2019 - 578,877) Ordinary A2 shares of £0.001 each	579	579
	<u>80,236</u>	<u>75,841</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 26,699 ordinary shares at a price of £0.28 per share for total consideration of £7,475.72. During the year, the company issued 17,240 ordinary shares at a price of £0.62 per share for total consideration of £10,688.80. Each issue was as a result of employees exercising options as part of the share scheme.

SEMAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

23. Financial instruments

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
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. Provisions

Group

	Office Restructure £
Charged to profit or loss	127,342
At 31 December 2020	<u>127,342</u>

Company

	Office Restructure £	Total £
Charged to profit or loss	127,342	127,342
At 31 December 2020	<u>127,342</u>	<u>127,342</u>

A provision for office restructuring has been included in 2020 accounts as management decided in 2020 that its current space in the UK is in excess of that required for current and future needs. Semafone expects the costs accrued in 2020, should they need to be incurred, to occur during H1 2022.

SEMAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

25. 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.

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 £331,221 (2019 - £313,291). Contributions totalling £47,248 (2019 - £50,277) were payable to the fund at the balance sheet date.

27. Commitments under operating leases

At 31 December 2020 the Group and the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Not later than 1 year	431,750	472,405	390,000	390,000
Later than 1 year and not later than 5 years	1,595,944	1,633,322	1,560,000	1,560,000
Later than 5 years	585,890	975,890	585,890	975,890
	<u>2,613,584</u>	<u>3,081,617</u>	<u>2,535,890</u>	<u>2,925,890</u>

SEMAFONE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

28. Related party transactions

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

During the year, the company incurred costs totalling £139,000 (2019 - £139,000) in respect of annual investment fees due to shareholding companies with significant influence. The amount due from Semafone Limited at the year end was £468,750 (2019 - £393,750), this amount is included within accruals.

As detailed within note 20, the Company also incurred costs in respect of the cumulative fixed dividends due to a shareholding company with significant influence. The cost for the year, shown within interest payable, totals £308,831 (2019- £308,831) and the amount due from Semafone Limited at the year end was £1,930,193 (2019 - £1,621,362). The amount does not become payable until the company has sufficient distributable funds to do so

During the year, Key Management Personnel received a total of £1,375,572 (2019 - £443,773) in remunerations for their services to the Group. Included in this amount is £43,983 (2019 - £12,526) of employer's pensions contributions. Key Management Personnel consist of the Directors and the Executive Team.

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