

**UC Group Limited**

**Annual report and financial statements**

**Registered number 3762366**

**31 December 2016**



## Contents

Chairman's statement	1
Directors' report	2
Strategic report	3
Statement of directors' responsibilities in respect of the directors' report, strategic report and the financial statements	5
Independent auditor's report to the members of UC Group Limited	6
Consolidated Income Statement	8
Consolidated Statement of Comprehensive Income	9
Consolidated Balance Sheet	10
Consolidated Statement of Changes in Equity	11
Company Statement of Changes to Equity	12
Consolidated Cash Flow Statement	13
Notes to the financial statements	14

## Chairman's statement

Dear Shareholders,

It is with great pleasure I present the annual accounts for the Group.

After multiple years of investment across a range of payments and related services markets, the Group has grown to £39.9m Revenue (2015: £17.9m) and turned into profitability as shown on our business operation and performance table below:

Financial highlights from continuing operations	2016	2015	Movement
Group revenue	£39.9m	£17.9m	123 % increase
Earnings before interest, tax, depreciation and amortisation (EBITDA)	£2.13m	(£1.15m)	285 % increase
EBITDA margin	5.34%	(6.42%)	
Gross margin	£17m	£9.6m	77% increase
Operating results	£0.74m	(£3.27m)	122% increase

Much of the driver on this growth and transformation has been delivered by the expansion of the processing volumes in the acquiring services business, SecureTrading Financial Services Limited.

Headline growth has been strong, and whilst the operating profits have grown, operating margins are due to increase as the business expands to scale.

Our well-established Gateway, SecureTrading Ltd, also performed particularly well, with Revenues growing at market-leading rates.

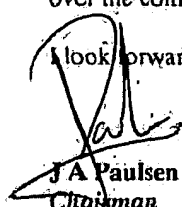
The businesses continue to win industry awards: Winner Best Customer Focus 2017 and Winner Innovation in Payments 2017, showing our commitment to innovation and sustainable development.

The markets for payments continues their dynamic developments and we continue to be confident in the market and our position in it.

I am also very pleased to report that our IP protection continues apace: we have now 6 Patents granted around our ability to register, validate and process online transactions in America, Japan and China with 18 more applications pending globally. We have through taken the opportunity to review our older and lapsed patent applications, which has resulted in an impairment charge of £0.4m.

I continue to thank the board, our shareholders and stakeholders for their continued and long-standing support, but assure them of my and the management team's commitment to see continued execution of our strategy and vision: to grow the group into a truly global payments and cybersecurity solutions business over the coming years.

I look forward to progressing as rapidly in 2017 and beyond.



J A Paulsen  
Chairman

20<sup>th</sup> September 2017

## Directors' report

The directors present their annual report and financial statements for the year ended 31 December 2016.

### Principal activity

The principal activity of UC Group is that of a global e-solutions company, offering internet-enabled services. The focus is on internet-enabled bespoke payment and cybersecurity solutions, as well as transaction and payment management systems for our global markets.

### Political and charitable contributions

The Company made no disclosable political or charitable donations or incurred any political expenditure during the year (2015: £nil).

### Directors

The following directors have held office since 1 January 2016 unless otherwise stated:

J A Paulsen  
D I Holden  
P J Boylan\*  
M M J J Boekhoorn\*  
D Scherf\*  
The Rt Hon. the Lord Blunkett\*  
F S Hove\* (resigned 01 January 2016)

\*Non-executive director.

### Employee involvement

The group's policy is to consult and discuss directly with employees any matters likely to affect employees' interests.

Information on matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance.

### Disabled persons

The group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

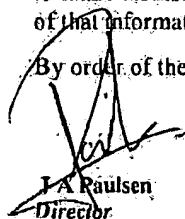
### Auditors

The auditors, KPMG LLP, are deemed to be appointed under section 487(2) of the Companies Act 2006.

### Statement of disclosure to auditor

So far as the directors are aware, there is no relevant audit information of which the group's auditor is unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the group's auditor is aware of that information.

By order of the Board



J A Paulsen  
Director

40 Bank Street, London  
E14 5NR

20<sup>th</sup> September 2017

## Strategic report

We offer e-solution services, providing customers with valuable integrated internet-enabled solutions, bespoke payment and cybersecurity solutions, as well as transaction and payment management systems for our global markets.

Our strategy addresses the positive long-term demand for e-solution and related services and our enduring strategic aim is to demonstrate the values and performance that make UC Group the company of choice for merchants. We aim to do this by delivering industry-leading, innovative solutions and outstanding service to our customers, by providing engaging and rewarding work for employees and by generating sustainable growth and returns for our shareholders.

The ability to achieve our strategic objectives depends on how we respond to competitive forces (see "Risk factors"). We continuously assess the external environment – the markets as well as the underlying economic, political, social and environmental drivers that shape them – to anticipate changes in competitive forces and business models. We undertake regular reviews of the markets we operate in and analyse our competitors' strengths and weaknesses to understand our competitive position. We maintain business strategies and plans that focus on actions and capabilities to create and sustain competitive advantage.

### Business review

The progress and revenue shift in 2016 has been very significant. Securetrading Financial Services Limited ("STFS"), the acquiring institution licensed by Mastercard and Visa, built a solid base and processing volumes rapidly increased. Group revenues increased to £39.9m (2015: £17.9m), despite some initial delays in the commencement of the processing platform.

Being able to offer a full suite of payments and related management services has been a compelling combination in our markets, and this builds a good foundation for the future. Core business in the gateway also rose by 383% off the back of new technologies and an integrated service offering.

The group's external financing of £18m is, per the facilities agreement, due for repayment in 2017 and early 2018, and is now shown as due within one year. The directors expect to be able to repay the group's external debt through a re-financing. Please see Note 1.5 "Going Concern".

### Description of principal risk and uncertainties

The turnover of the group consists of income from the provision of electronic payment services. Sales are dependent on the group being able to continually offer its customers cost-effective, versatile and reliable products and complying with ever changing demands of the environment in which it operates, including changes in global government and regulatory policies around the world.

The group, as it adapts to global changes in its markets, needs to ensure that it can maintain strong internal controls and procedures.

The group's principal financial instruments are comprised of cash in liquid resources, short term deposits, merchants' withheld reserve collateral funds and various items such as trade debtors and trade creditors that arise directly from its operations.

## Strategic report (continued)

The main risk arising from the group's financial instruments is liquidity risk. The group finances its operations through a mixture of share capital and income from sales. Liquidity risk is managed by maintaining a balance between continuity of funding and flexibility through the use of short-term deposits when surplus funds are available.

Trade debtors are managed in respect of credit and cash flow risk by policies concerning the credit offered to purchasing authorities and the regular monitoring of amounts outstanding for both time and credit limits.

Trade creditors liquidity risk is managed by ensuring sufficient funds are available to meet amounts due.

Foreign currency risk is the risk that the group will sustain losses through adverse movements in currency exchange rates. The group's business is impacted through its exposure to some of its fee income being in US dollars and Euros. The group is exposed to changes in relationships with its customers and suppliers. It is a key task for the operational management in each business to maintain and develop relationships with customers and suppliers.

### Performance:

#### *Continuing business performance*

The combination of growing revenues and improved productivity saw the Group's EBITA rise by 285% to £2.13 million, whilst operating results rose by 122% to £0.74 million. The increase in profit and more effective working capital management saw cash flow rise by more than 521% to £35 million.

#### *Statutory results*

Revenue growth was 123% and loss before tax decreased by 57.5%. A more detailed review of the statutory results can be found on page 8.

### Summary and outlook

The Group delivered a robust performance in 2016 despite significant downward pressure in some key business sectors. The speed and effectiveness of management's actions, in addition to the continued focus on improved mix, resulted in resilient margins.

We have followed a consistent strategy for many years. As a result, we continue to demonstrate that we are capable of adapting with great agility to changes in market conditions. Our outlook is positive and we remain optimistic that we are well placed to take advantage of an upturn in our markets.

The Board is confident that management's continued focus on business improvements and execution of the Group strategy will generate good returns through the cycle.

By order of the board



J A Paulsen  
Director

40 Bank Street, London  
E14 5NR

20<sup>th</sup> September 2017

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



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London  
E14 5GL

## **Independent Auditor's report to the members of UC Group Limited**

We have audited the financial statements of UC Group Limited for the year ended 31 December 2016 set out on pages 8 to 41. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

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. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's loss for the year then ended;
- the group's financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

### **Emphasis of Matter – Going Concern**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the group and company's ability to continue as a going concern; in particular the continued availability of amounts due to lenders under facilities that expire in November 2017, potentially extending to early 2018, classified as repayable within one year, and the availability of alternative equity and / or debt funding when those amounts are repaid. These conditions, along with the other matters explained in Note 1 to the financial statements, indicates the existence of a material uncertainty, which may cast significant doubt on the group and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group or company was unable to continue as a going concern.



**Independent Auditor's report to the members of UC Group Limited (continued)**

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

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

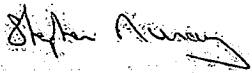
Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.



**Stephen Muncey (Senior Statutory Auditor)**

For and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants

KPMG LLP  
15 Canada Square  
London  
E14 5GL

20<sup>th</sup> September 2017

**Consolidated Income Statement**  
*for the year ended 31 December 2016*

		Total	Total
	Note	2016	2015
		£	£
Revenue	4	39,857,839	17,884,224
Cost of sales		(22,720,428)	(8,235,488)
<b>Gross profit</b>		<b>17,137,411</b>	<b>9,648,736</b>
Administrative and other expenses		(17,074,162)	(10,804,829)
Depreciation, amortisation & impairment of non-financial assets	5	(1,390,351)	(2,116,982)
Other income	7	2,065,055	-
<b>Operating profit/(loss)</b>		<b>737,953</b>	<b>(3,273,075)</b>
Finance expense	8	(3,423,495)	(3,042,064)
<b>Loss on ordinary activities before taxation</b>		<b>(2,685,542)</b>	<b>(6,315,139)</b>
Tax on loss on ordinary activities	9	(563,521)	(11,976)
<b>Loss on ordinary activities after taxation</b>		<b>(3,249,063)</b>	<b>(6,327,115)</b>
<b>Attributable to</b>			
Equity holders of parent		(2,682,242)	(5,219,423)
Minority interests		(566,821)	(1,107,692)
<b>Loss for the financial year</b>		<b>(3,249,063)</b>	<b>(6,327,115)</b>

The notes on pages 14 to 41 form part of these financial statements.

**Consolidated Statement of Comprehensive Income**  
for the year ended 31 December 2016

	Note	2016 £	2015 £
Loss for the financial year		(3,249,063)	(6,327,115)
Exchange differences on translating foreign operations		(197,324)	167,201
Charges in relation to share based payments			33,737
Fair value change on assets held for resale	15	(1,423,780)	1,423,780
		<u>(4,870,167)</u>	<u>(4,702,397)</u>
Equity holders of parent		(4,071,488)	(3,883,945)
Minority interests		(798,679)	(818,452)
<b>Total comprehensive expense for the year</b>		<u><b>(4,870,167)</b></u>	<u><b>(4,702,397)</b></u>

The notes on pages 14 to 41 form part of these financial statements.

# Consolidated Balance Sheet

at 31 December 2016

	Note	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
<b>Non-current assets</b>					
Intangible assets	10	3,835,212	2,910,172	757,949	1,158,710
Tangible assets	11	806,675	858,663	-	-
Trade and other receivables		1,145,778	1,239,748	-	-
Investments in subsidiaries	13	-	-	3,895,419	3,895,419
		<u>5,787,665</u>	<u>5,008,583</u>	<u>4,653,368</u>	<u>5,054,129</u>
<b>Current assets</b>					
Trade and other receivables	16	24,651,913	11,269,174	5,695,375	7,272,438
Available for sale financial assets	15	-	1,423,780	-	-
Cash and cash equivalents		35,200,895	5,666,024	-	67,951
		<u>59,852,808</u>	<u>18,358,978</u>	<u>5,695,375</u>	<u>7,340,389</u>
<b>Total assets</b>		<u>65,640,473</u>	<u>23,367,561</u>	<u>10,348,743</u>	<u>12,394,518</u>
<b>Current Liabilities</b>	17	(87,969,865)	(40,681,094)	(1,148,998)	(3,707,216)
<b>Non-current Liabilities</b>	18	(273,056)	(418,748)	-	-
<b>Total Liabilities</b>		<u>(88,242,921)</u>	<u>(41,099,842)</u>	<u>(1,148,998)</u>	<u>(3,707,216)</u>
<b>Net (Liabilities)/Assets</b>		<u>(22,602,448)</u>	<u>(17,732,281)</u>	<u>9,199,745</u>	<u>8,687,302</u>
<b>Equity attributable to equity holders of the parent</b>					
Share capital	20	94,890	94,890	94,890	94,890
Share premium		6,403,918	6,403,918	6,403,918	6,403,918
Retained earnings		(23,557,437)	(20,624,973)	2,700,937	2,188,494
Fair Value Reserve		-	1,139,024	-	-
		<u>(17,058,629)</u>	<u>(12,987,141)</u>	<u>9,199,745</u>	<u>8,687,302</u>
<b>Non-controlling interest</b>	14	(5,543,819)	(4,745,140)	-	-
<b>Total equity</b>		<u>(22,602,448)</u>	<u>(17,732,281)</u>	<u>9,199,745</u>	<u>8,687,302</u>

The notes on pages 14 to 41 form part of these financial statements.

These financial statements were approved by the board of directors on 20<sup>th</sup> September 2017 and were signed on its behalf by:

D J Holden  
Director  
Company registered number: 3762366

**Consolidated Statement of change in equity**  
*at 31 December 2016*

	Share Capital	Share Premium	Fair Value Reserve	Retained Earnings	Non- Controlling Interest	Group Total
Balance at 1 January 2015	94,075	4,899,002	-	(15,602,004)	(3,926,688)	(14,535,615)
Loss for the year	-	-	-	(5,219,423)	(1,107,692)	(6,327,115)
Fair value change on assets held for resale	-	-	1,139,024	-	284,756	1,423,780
New share issue	815	1,504,916	-	-	-	1,505,731
Share based payment expense	-	-	-	33,737	-	33,737
Net exchange movement in translation of reserves	-	-	-	162,717	4,484	167,201
<b>Balance at 31 December 2015</b>	<b>94,890</b>	<b>6,403,918</b>	<b>1,139,024</b>	<b>(20,624,973)</b>	<b>(4,745,140)</b>	<b>(17,732,281)</b>

	Share Capital	Share Premium	Fair Value Reserve	Retained Earnings	Non- Controlling Interest	Group Total
Balance at 1 January 2016	94,890	6,403,918	1,139,024	(20,624,973)	(4,745,140)	(17,732,281)
Loss for the year	-	-	-	(2,682,242)	(566,821)	(3,249,063)
Fair value change on assets held for resale	-	-	(1,139,024)	-	(284,756)	(1,423,780)
New share issue	-	-	-	-	-	-
Share based payment expense	-	-	-	-	-	-
Net exchange movement in translation of reserves	-	-	-	(250,222)	52,898	(197,324)
<b>Balance at 31 December 2016</b>	<b>94,890</b>	<b>6,403,918</b>	<b>-</b>	<b>(23,557,437)</b>	<b>(5,543,819)</b>	<b>(22,602,448)</b>

The notes on pages 14 to 41 form part of these financial statements.

**Company Statement of changes in equity**  
**at 31 December 2016**

	Share Capital	Share Premium	Retained Earnings	Company Total
Balance at 1 January 2015	94,075	4,899,002	2,439,587	7,432,664
Loss for the year	-	-	(284,830)	(284,830)
New share issue	815	1,504,916	-	1,505,731
Share based payment expense	-	-	33,737	33,737
Balance at 31 December 2015	94,890	6,403,918	2,188,494	8,687,302

	Share Capital	Share Premium	Retained Earnings	Company Total
Balance at 1 January 2016	94,890	6,403,918	2,188,494	8,687,302
Profit for the year	-	-	512,443	512,443
New share issue	-	-	-	-
Share based payment expense	-	-	-	-
Balance at 31 December 2016	94,890	6,403,918	2,700,937	9,199,745

The notes on pages 14 to 41 form part of these financial statements.

## Consolidated Cash Flow Statement

For the year ended 31 December 2016

	Notes	2016 £	2015 £
<b>Cash flows from operating activities</b>			
Operating loss for the financial year		(2,685,542)	(6,315,139)
Adjustments for:			
Amortisation of intangible assets	10	403,968	217,909
Impairment of intangible assets	10	416,811	1,394,708
Depreciation of tangible assets	11	569,572	504,365
Foreign exchange loss		(299,311)	263,159
Other income	7	(2,065,055)	-
Financial expense	8	3,423,495	3,042,064
Increase in trade and other debtors		(7,312,305)	(6,521,138)
Increase in trade creditors		38,859,260	12,506,492
Reversal of charge in relation to share based payments	22	-	33,737
<b>Cash inflow from operations</b>		<b>31,310,893</b>	<b>5,126,157</b>
Income taxes paid		-	-
<b>Net cash inflow from operating activities</b>		<b>31,310,893</b>	<b>5,126,157</b>
<b>Cash flows from financing activities</b>			
Interest paid		(843,212)	(1,086,943)
Tax credit		-	-
<b>Net cash outflow from financing activities</b>		<b>(843,212)</b>	<b>(1,086,943)</b>
<b>Cash flows from investing activities</b>			
Proceeds from financial assets classified as available-for-sale	15	1,423,780	-
Purchases of tangible assets	11	(526,693)	(443,317)
Purchases of intangible assets	10	(1,440,795)	(1,322,388)
<b>Net cash outflow from investing activities</b>		<b>(543,708)</b>	<b>(1,765,705)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issuance of share capital		-	1,505,732
Receipt of loan monies		-	-
Drawdown on Finance Lease	17	-	362,303
Repayment of bank loans		-	(20,000)
Repayment of finance lease obligations		(69,862)	(221,803)
Repayment of related party loans		-	-
<b>Net cash used in financing activities</b>		<b>(69,862)</b>	<b>1,626,232</b>
<b>Net increase in cash and cash equivalents</b>		<b>29,854,111</b>	<b>3,899,741</b>
Foreign exchange translation adjustment		(319,240)	(56,729)
<b>Cash and cash equivalents at the beginning of year</b>		<b>5,666,024</b>	<b>1,823,012</b>
<b>Cash and cash equivalents at end of year</b>		<b>35,200,895</b>	<b>5,666,024</b>

The notes on pages 14 to 41 form part of these financial statements.

## Notes to the financial statements

*(forming part of the financial statements)*

### 1 Significant Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements:

#### 1.1 Basis of preparation and compliance with accounting standards

The consolidated financial statements comprise UC Group Limited, the Parent Company, and its subsidiaries (the "Group") are private companies limited by shares. The Parent Company is domiciled and incorporated in the United Kingdom. The Parent Company's registered address is 40 Bank Street, London E14 5NR, UK.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its group.

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its parent company financial statements in accordance with FRS 101; these are presented on pages 10 and 12.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these group financial statements.

#### 1.2 Basis of preparation - company

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The financial statements are prepared under the historical cost convention.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section 408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account. Under FRS 101 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets.
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period.
- Disclosures in respect of the compensation of Key Management Personnel; and



## Notes (continued)

### 1. Accounting policies (continued)

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

#### 1.3 Basis of preparation - group

The financial statements are prepared under the historical cost convention.

#### 1.4 Measurement convention

The financial statements are prepared on the historical cost basis except for financial instruments classified as available-for-sale which are stated at their fair value.

#### 1.5 Going concern

As at 31 December 2016, the Group had cash of £35m, net current liabilities of £87.9m and net liabilities of £22.6m, of which £18m related to the capital and accrued interest amounts due under the Facilities Agreement entered into on 8 November 2013. As at the end of July 2017, the group owed £19.2m under the Facilities Agreement and had cash at bank of £5.2m.

The directors have prepared forecasts for a period of at least 12 months from the date of authorisation of these financial statements. The year to date Group revenues and gross margins are ahead of those achieved year to date in 2016; hence, the group expects to be able to operate within the existing facilities should they remain available to the group. Therefore, having made enquiries, and having also received the ongoing support of a related company, Mansion Associates Ltd, the directors are satisfied that they have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future.

The group's external financing of £19.2m is, per the Facilities Agreement, due for repayment in November 2017, potentially extending to early 2018.

The group was in breach of its covenants at 31 December 2015 so the debt provider's facilities are deemed to be due on demand and the debt provider could exercise their rights under the Facilities Agreement but they have not done so. Given that the business is performing well, any enforcement of such rights would likely impact their own recovery and significantly diminish the value of the group as a whole.

The covenant certificate for 31 December 2016 has not yet been agreed but may show a breach.

The directors expect to be able to repay the group's external debt through a refinancing by alternative equity and / or debt rather than through operational cash flow. Discussions about the refinancing of the group are in progress and these are expected to result in the provision of new facilities, although completion is subject to concluding a transaction with new investors.

The continued availability of the external loan or the availability of appropriate alternative funding represents a material uncertainty that may cast significant doubt on the group and the parent company's ability to continue as a going concern. The group and the parent company may, therefore, be unable to continue realising their assets

## Notes (continued)

### 1. Accounting policies (continued)

and discharging their liabilities in the normal course of business but the financial statements do not include any adjustments that would result from the going concern basis being inappropriate.

Given the strong trading performance of the group since 31 December 2016 as well as its forecasts into 2017 and beyond, and the current re-financing of the group that is currently being negotiated, the directors continue to adopt the going concern basis in the preparation of the financial statements.

#### 1.6 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2016. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### 1.7 Research and development

Expenditure on research activities is recognised in the income statement as an expense as it is incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends to and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset 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 and capitalised borrowing costs. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

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

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably. Internally-generated intangible assets are amortised on a straight-line basis over their useful lives.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

## Notes (continued)

### 1. Accounting policies (continued)

#### 1.8 Website development costs

Design and content development costs are capitalised only to the extent that they lead to the creation of an enduring asset delivering benefits at least as great as the amount capitalised. If there is insufficient evidence on which to base reasonable estimates of the economic benefits that will be generated in the period until the design and content are next updated, the cost of developing the design and the content are charged to the profit and loss account as incurred.

#### 1.9 Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

#### 1.10 Patents

Patents are valued at historic cost. Patents have a finite life and are carried at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal annual instalments over their estimated useful lives (20 years).

#### 1.11 Leases

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Computer hardware, software and websites - over 3 years
- Fixtures, fittings and equipment - over 3 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

#### 1.12 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and provision for impairment, where impairment is expected to be permanent. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life.

#### 1.13 Computer software licences

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis over their estimated useful lives of three years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

The assets' carrying amounts and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

#### 1.14 Investments

Fixed assets investments are stated at cost less provision for diminution in value.

## Notes (continued)

### 1. Accounting policies (continued)

#### 1.15 Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year.

#### 1.16 Taxation

Corporation tax payable is provided on taxable profits at the current rates.

Deferred tax is provided in full on all timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on the current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations of periods different from those in which they are included in the financial statements. Deferred assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### 1.17 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be. When a foreign operation is disposed of, such that control, joint control or significant influence (as the case may be) is lost, the entire accumulated amount in the foreign currency translation reserve, net of amounts previously attributed to non-controlling interests, is recycled to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while still retaining significant influence or joint control, the relevant proportion of the cumulative amount is recycled to profit or loss.

#### 1.18 Cash held on deposit

Cash is held on deposit in respect of certain customer electronic payment transactions where there is a higher than normal risk of loss to the payment processor. This cash is held for a fixed period to protect the company and its financial service providers and is returned to the customer to the extent the deposit is not used. Cash held on deposit under these arrangements is recorded on the balance sheet as cash, with an equal liability for the amount held.

## Notes (continued)

### 1. Accounting policies (continued)

#### 1.19 Financial assets

##### *Initial recognition and de-recognition*

The Company recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets are recognised on the trade date, which is the date on which the Company commits to purchase or sell the asset. Accordingly, the Company uses trade date when recording financial asset transactions.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership or the Company has not retained control of the asset.

##### *Classification*

The Company classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial instruments at initial recognition.

##### *Classification of financial instruments issued by the Group*

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

##### *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

##### *Trade and other receivables*

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

##### *Trade and other payables*

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Other investments in debt and equity securities held by the Group are classified as being available for sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity (in the fair value reserve), except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

## Notes (continued)

### 1. Accounting policies (continued)

#### 1.20 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- (a) those that the Company intends to sell immediately or in the short term, which are classified as held-for-trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- (b) those that the Company upon initial recognition designates as available-for-sale; or
- (c) those for which the holder may not recover substantially all of their initial investment, other than because of credit deterioration.

Loans and receivables mainly consist of loans and advances to companies, funds receivable from card schemes and funds advanced as collateral. They are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (and groups of financial assets or financial liabilities) and of allocating the 'Net interest income' over the relevant period.

#### 1.21 Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or that are not classified as loans and receivables or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially measured at fair value plus direct and incremental transaction costs. They are subsequently re-measured at fair value, and changes therein are recognised in other comprehensive income until the financial assets are either sold or become impaired. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss as 'Net gains on sale of available-for-sale financial investments'.

#### 1.22 Impairment of financial assets

##### Assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- (a) significant financial difficulty of the obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments;
- (c) it becomes probable that the obligor will enter bankruptcy or other financial reorganisation.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

## Notes (continued)

### 1. Accounting policies (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

#### *Assets classified as available-for-sale*

Available-for-sale financial assets are assessed at the end of each reporting period for objective evidence of impairment. If such evidence exists as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event has an impact, which can be reliably measured, on the estimated future cash flows of the financial asset an impairment loss is recognised.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost and the current fair value, less any previous impairment loss recognised in profit or loss, is reclassified from other comprehensive income and recognised in profit or loss as a reclassification adjustment.

In assessing objective evidence of impairment of equity securities at the reporting date the Company considers all available evidence, including observable data or information about events specifically relating to the issuer, and also to information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the equity security classified as available-for-sale below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the continuous period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised all subsequent increases in the fair value of an available-for-sale equity security are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through profit or loss. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in profit or loss, to the extent that further cumulative impairment losses have been incurred.

#### **1.23 Trade and other receivables**

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

Trade receivables include receivables from card schemes for transactions processed on behalf of merchants where the Company is a member of that particular card scheme.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited in profit or loss.

## Notes (continued)

### 1: Accounting policies (continued)

#### 1.24 Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and all liquid investments with an initial maturity of three months or less when purchased. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement. Cash and cash equivalents also include settlement related cash balances, which represent surplus funds that the Company holds when the incoming amount from card schemes precedes the funding obligation to the merchant. These amounts also include cash that the Company holds related to reserve funds withheld from merchants that serve as collateral to minimise contingent liabilities associated with any losses that may occur under the merchant agreement. The Company records a corresponding liability for settlement processing obligations in the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents comprise deposits held at call with banks.

#### 1.25 Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

#### 1.26 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables include settlement processing obligations representing transactions that have been processed but not yet funded together with funds withheld from merchants that serve as collateral to minimise contingent liabilities associated with any losses that may occur under the merchant agreement ("merchant rolling reserve").

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

#### 1.27 Offsetting financial instruments

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

#### 1.28 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.



## Notes (continued)

### 1. Accounting policies (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### 1.29 Revenue recognition

Revenue comprises the fair value of the consideration or receivable for the sale of services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts. Revenue streams of the business are Electronic Payment Services and Acquiring Merchant Services, both of which typically recognise levels of transactions (based on number and value) and Cyber Security Services, which are typically invoiced on project or deliverable completion.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities. Revenue from services is generally recognised in the period the services are provided, based on the services performed to date as a percentage of the total services to be performed.

#### 1.30 Share based payments

##### *Share-based payment transactions*

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The group has issued share options to certain directors and employees. These are measured at fair value and recognised as an expense in the profit and loss account with a corresponding increase in equity. The fair value of the options was estimated at the date of grant using the option-pricing model. The fair value will be charged as an expense in the profit and loss account over the vesting period. The charge is adjusted each year to reflect the expected and actual level of vesting.

#### 1.31 Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

## Notes (continued)

### 1. Accounting policies (continued)

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

#### 1.32. Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

### 2. Financial Instruments

#### 2.1. Financial risk factors

The Company's activities potentially expose it to a variety of financial risks including credit risk, market risk, specifically foreign exchange risk, and liquidity risk. Accordingly, the directors provide principles for overall risk management as well as policies covering specific areas. In order to manage these risks, the Company did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial year.

##### (a) Credit risk

The Company's exposures to credit risk as at the end of the reporting periods based on carrying amounts as reported in the statement of financial position for on-balance sheet financial assets are analysed as follows:

	2016 £	2015 £
Financial assets classified as available-for-sale (Note 15)	-	1,423,780
Trade and other receivables (Note 16)	24,651,913	11,269,174
Cash and cash equivalents	35,200,895	5,666,024
	<u>59,852,808</u>	<u>18,358,978</u>

Within Trade and other receivables at year end there are trade debtors of £13,850,261 (2015: £5,169,801) representing funds receivable from card schemes relating to transactions processed in the last few processing days of the year which were settled after year end; and £1,145,778 (2015: £1,239,748) of deposits held with reputable financial institutions of high quality rating, as a financial safeguard in relation to Visa and Mastercard ('the card schemes').

Whilst the Company notionally has concentration risk in respect of having receivables from two card schemes, these card schemes are underpinned by financial stability/creditworthiness within the wider financial markets. Card schemes interpose themselves between issuing and acquiring banks to ensure the performance of transactions.

## Notes (continued)

### 2. Financial Instruments (continued)

being processed by using several layers of financial safeguards to cover losses resulting from the default of one or more members. Accordingly, the credit risks emanating from the Company's exposures to card schemes are deemed by the directors to be immaterial.

Credit concentration risk also exists with respect to the Company's cash equivalents, which are held with a reputable financial institution of high quality standing or rating.

As at 31 December 2016, the Company's trade and other receivables were fully performing. All the receivables from card schemes outstanding at year end were settled within days from the end of the reporting period. The Company assesses the credit quality of its trade and other receivables taking into account the financial position, past experience and other factors relating to the debtor.

The Company is also exposed to credit risk to the extent that the card schemes of which it is a Member may chargeback credit card purchases. In order to manage its credit risk exposures arising from its payment processing operations, the Company compiles and updates due diligence reports in respect of its merchants and establishes appropriate transaction volumes and value limits. The Company monitors its merchants' adherence to limits in relation to charge-backs on a daily basis to prevent any collection losses that are inherent in the Company's payment processes.

The concentration of credit risk for trade receivables at the balance sheet date by geographic region was:

	2016	2015
	£	£
UK	560,990	297,279
Rest of Europe	351,907	204,251
USA	556,973	349,835
Rest of the world	335,715	101,391
	<u>1,805,585</u>	<u>952,756</u>

There are no significant concentrations of credit risk within the Company unless otherwise disclosed. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date. The Company has established procedures to minimise the risk of default by trade debtors including credit checks undertaken before a customer is accepted. Historically, these procedures have proved effective in minimising the level of impaired and past due debtors.

#### Credit quality of financial assets and impairment losses

The aging of trade receivables at the balance sheet date was:

	Gross 2016	Impairment 2016	Gross 2015	Impairment 2015
	£	£	£	£
not past due	1,133,295	-	754,773	-
Past due 0-30 days	230,594	-	122,371	-
Past due 31-120 days	72,383	-	43,738	-
More than 120 days	369,463	(150)	31,874	(150)
Total	<u>1,805,735</u>	<u>(150)</u>	<u>952,756</u>	<u>(150)</u>

## Notes (continued)

### 2. Financial Instruments (continued)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2016	2015
	£	£
Balance at 1 January	(150)	(150)
Impairment loss recognised	-	-
Impairment loss reversed	-	-
Balance at 31 December	(150)	(150)

#### (b) Market Risk

##### Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency. The Company takes on exposures to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. To reduce its currency exposure, the Company generally matches its asset and liability positions represented by the amounts due by acquirers and other payment service providers and the relative amounts due to the merchants. The remaining open foreign exchange exposures mainly consist of part of the funds advanced as collateral to card schemes, bank balances and part of the amounts payable to group undertakings denominated in foreign currency.

The net open currency exposure at the end of the reporting period amount to £1,292,114 (2015: £827,012), which is denominated in US dollars. The Company does not apply hedging techniques in respect of foreign exchange risk. Under the scenario that the euro appreciates/depreciates by 20% against the United States Dollar (USD), the effect would be a decrease/increase of £258,423 (2015: £165,402) in the carrying amount of financial instruments with the adverse/favourable impact recognised in profit or loss.

The Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments

31 December 2016	Sterling	Euro	US Dollar	Other	Total
	£	£	£	£	£
Cash and cash equivalents	728,627	1,430,852	25,157,810	7,883,606	35,200,895
Trade receivables	1,106,818	695,186	2,589	992	1,805,585
Amounts due from card schemes	6,005,140	1,844,990	3,886,823	2,113,308	13,850,261
Current Collateral	-	5,830,129	146,338	-	5,976,467
Collateral with schemes	-	-	1,145,778	-	1,145,778
Secured bank loans	(18,444,722)	-	-	-	(18,444,722)
Trade payables	(1,480,444)	(3,891,031)	(263,832)	(5,041)	(5,640,348)
Amounts due to merchants	(9,884,628)	(11,060,615)	(30,541,364)	(4,509,306)	(55,995,913)
Balance sheet exposure	(21,969,209)	(5,150,489)	(465,858)	5,483,559	(22,101,997)

## Notes (continued)

### 2. Financial Instruments (continued)

31 December 2015	Sterling £	Euro £	US Dollar £	Other £	Total £
Cash and cash equivalents	2,668,407	146,752	1,894,535	956,330	5,666,024
Trade receivables	589,650	357,761	4,353	992	952,756
Amounts due from acquirer	1,129,259	1,332,631	1,920,767	787,144	5,169,801
Collateral with schemes	-	412,733	827,015	-	1,239,748
Secured bank loans	(16,412,461)	-	-	-	(16,412,461)
Trade payables	(1,783,505)	(1,457,217)	(844,009)	(4,727)	(4,089,458)
Amounts due to merchants	(4,642,118)	(3,250,509)	(3,889,017)	(787,144)	(12,568,788)
Balance sheet exposure	(18,450,768)	(2,457,849)	(86,356)	952,595	(20,042,378)

#### Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company has no significant interest-bearing assets that mature in the long-term, its income and operating cash flows are substantially independent of changes in market interest rates. The Company's cash flow interest rate risk arises from cash and cash equivalents. Up to the reporting date, the Company did not have any hedging policy with respect to interest rate risk as exposure to such risk was not deemed to be significant by the directors since these assets are of a short-term nature. Management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the reporting date to be immaterial. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to fair value interest rate risk.

#### (c) Liquidity risk

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally settlement processing obligations and other liabilities (refer to Note 16 and 17). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Company's obligations.

The Group manages this risk, by monitoring future cash flows together with changes in available liquidity on a regular basis. Senior management is updated on a regular basis on the cash flow position of the Company.

The Group financial projections reveal that the financial performance of the Group is expected to improve in the foreseeable future thereby generating net cash inflows subsequent to the end of the reporting period.

The loan principal is due within one year or on demand (£17,956,850) (2015: £15,770,646).

31 December 2016	1 year or less	1 to 2 years	2 to 5 years	Total
Finance lease liabilities	£213,940	£183,777	£90,155	£487,872
31 December 2015	1 year or less	1 to 2 years	2 to 5 years	Total
Finance lease liabilities	£223,067	£183,658	£235,090	£641,815

## Notes (continued)

### 2. Financial Instruments (continued)

#### 2.2 Capital risk management

The objectives of Secure Trading Financial Service Ltd (a Group Subsidiary Undertakings) while managing capital are to comply with the minimum capital requirements required by the Malta Financial Services Authority ("MFSA") and to safeguard Secure Trading Financial Service Ltd's ability to continue as a going concern so that it can provide returns for shareholders and benefits for other stakeholders.

In order to maintain or adjust the capital structure, Secure Trading Financial Service Ltd may adjust the amount of dividends paid to shareholders or issue new shares. Secure Trading Financial Service Ltd maintains the level of capital by reference to its financial obligations and commitments arising from operational requirements. In view of the nature and stage of the activities, the directors deem the capital level as at the end of the reporting period to be adequate.

Secure Trading Financial Service Ltd is required to hold minimum capital requirements in compliance with rules issued by the MFSA. The minimum capital requirement must be maintained at all times throughout the financial period. Secure Trading Financial Service Ltd monitors its capital level on a regular basis. Any transactions that may potentially affect the capital requirements are immediately reported to the directors and shareholders for resolution prior to notifying the MFSA.

During the financial period ended 31 December 2016, Secure Trading Financial Service Ltd met at all times the minimum capital requirements imposed by the regulatory authority. As at 31 December 2016, the minimum capital requirement amounted to £1,739,582 (€2,037,920) (2015: £671,642 (€911,285)) which is lower than the Group's own funds amounting to £2,067,989 (€2,422,649) (2015: £837,782 (€1,136,702)).

#### 2.3 Fair value of financial instruments

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions.

Fair values are consequently determined according to the following hierarchy:

- Level 1 – quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using models where one or more significant inputs are unobservable.

#### Financial instruments carried at fair value

As at 31 December 2016, financial assets classified as available-for-sale amounted to £nil (2015: £1,423,780 (€1,931,785)).

The best evidence of fair value is a quoted price in an actively traded market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. Where a financial instrument has a quoted price in an active market, the fair value of the total holding of the financial instrument is calculated as the product of the number of units and quoted price.

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell.

In the event that the market for a financial instrument is not active, a valuation technique is used. Valuation techniques may incorporate assumptions about factors that other market participants would use in their valuations, including:

## Notes (continued)

### 2. Financial Instruments (continued)

- the likelihood and expected timing of future cash flows on the instrument. Judgement may be required to assess time of future outlook.
- the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. Judgement is required to assess what a market participant would regard as the appropriate spread of the rate for an instrument over the appropriate risk-free rate;
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

The financial assets classified as available-for-sale represent the Company's interest in Visa Europe Limited and have been determined to be a Level 3 fair value. In accordance with IAS 39, the fair value of available-for-sale financial assets should be re-measured at each reporting date. Please see Note 15 for further explanation.

### 3. Critical accounting estimates and judgements

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

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

### 4. Revenue analysis by type and business segment

The analysis by class of business of the group's turnover is set out below:

Revenue	2016 £	2015 £
Class of business		
Electronic payment services	35,388,651	7,323,458
Cyber security services	1,005,582	1,418,382
Acquiring Merchant Services	3,463,606	9,142,384
	<u>39,857,839</u>	<u>17,884,224</u>

### 5. Operating profit/(loss)

Operating profit/(loss) is stated after charging:	2016 £	2015 £
Depreciation of tangible assets	569,572	504,365
Amortisation of intangible assets	403,968	217,909
Impairment of intangible assets	416,811	1,394,708
Foreign exchange losses	1,150,773	385,799
Fees payable to the group's auditors for the audit of the group's annual accounts	150,000	100,000
Taxation services	29,000	29,000

The group is actively building its international technology capabilities, supported by its global patent applications, to enter new and developing markets. These costs are separate to the underlying trading business, and are seen by the Board as continuing in the medium to long-term as the group deploys its strategy.

## Notes (continued)

### 6 Employee costs

#### Number of employees

The average monthly number of employees (including directors) during the year was:

	2016 Number	2015 Number
Management	25	25
Sales and administration	53	42
Technical and development	40	32
Customer service and support	45	30
	<u>163</u>	<u>129</u>

#### Employment costs

Note

	2016 £	2015 £
Wages and salaries	6,796,564	6,292,633
Social security costs	642,753	802,198
Other pension costs	146,121	173,194
Redundancy	50,000	-
Share based payments	-	33,737
	<u>7,635,438</u>	<u>7,301,762</u>

### 7 Other income

	2016 £	2015 £
Gain on Visa transaction (Note 15)	<u>2,065,055</u>	<u>-</u>

### 8 Finance expense

	2016 £	2015 £
On loans	2,954,934	2,539,997
Loan commitment fee	-	-
Loan arrangement fee	251,791	162,500
Finance lease interest	101,020	89,900
Other	115,750	249,667
	<u>3,423,495</u>	<u>3,042,064</u>



## Notes (continued)

### 9 Taxation

	2016 £	2015 £
<b>Corporation tax current year</b>		
UK Corporation tax charge	-	-
Adjustments in respect of prior years	(191,517)	74,102
Foreign tax	781,357	1,162
	<hr/>	<hr/>
Current tax charge	589,840	75,264
<b>Deferred tax</b>		
Origination and reversal of timing differences	(26,319)	(63,288)
Adjustment in respect of prior years	-	-
Effect of tax rate change on opening balance	-	-
	<hr/>	<hr/>
Deferred tax credit	(26,319)	(63,287)
	<hr/>	<hr/>
<b>Total tax charge</b>	<b>563,521</b>	<b>11,976</b>
	<hr/>	<hr/>
<b>Factors affecting the tax charge for the year</b>		
Loss on ordinary activities before taxation	(2,685,542)	(6,315,139)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 20.00% (2015: 20.25%)	(537,108)	(1,278,816)
Effects of:		
Non-deductible expenses	80,572	53,723
Impact of rate difference between deferred and current tax	347,853	606,185
Fixed asset differences	(241)	1,807
Excess overseas taxes suffered	789,863	163,266
Unrecognised deferred tax asset	149,308	391,709
R&D	(75,209)	-
Utilisation of brought forward loss	-	-
Adjustment for prior years	(191,517)	74,102
	<hr/>	<hr/>
	1,100,629	1,290,792
	<hr/>	<hr/>
<b>Total tax charge</b>	<b>563,521</b>	<b>11,976</b>
	<hr/>	<hr/>

#### *Factors that may affect future current and total tax charges*

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. The deferred tax asset at 31 December 2016 has been calculated based on these rates.

An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

Notes (continued)

10. Intangible fixed assets

Group	Development Costs	Patents	Total
£	£	£	£
Cost			
At 1 January 2015	699,848	2,758,363	3,458,211
Additions	1,273,388	49,000	1,322,388
FX adjustment	(172)		(172)
At 31 December 2015	1,973,064	2,807,363	4,780,427
Amortisation			
At 1 January 2015	51,538	206,007	257,545
Charge for the year	170,731	47,178	217,909
Impairment		1,394,708	1,394,708
FX adjustment	93		93
At 31 December 2015	222,362	1,647,893	1,870,255
Net book value			
At 31 December 2015	1,750,702	1,159,470	2,910,172
At 31 December 2014	648,310	2,552,356	3,200,666

Group	Development Costs	Patents	Total
£	£	£	£
Cost			
At 1 January 2016	1,973,064	2,807,363	4,780,427
Additions	1,367,737	73,058	1,440,795
Transfer		(760)	(760)
FX adjustment	347,977		347,977
At 31 December 2016	3,688,778	2,879,661	6,568,439
Amortisation			
At 1 January 2016	222,362	1,647,893	1,870,255
Charge for the year	346,961	57,007	403,968
Impairment		416,811	416,811
FX adjustment	42,193		42,193
At 31 December 2016	611,516	2,121,711	2,733,227
Net book value			
At 31 December 2016	3,077,262	757,950	3,835,212
At 31 December 2015	1,750,702	1,159,470	2,910,172

## Notes (continued)

### Intangible Fixed Assets (continued)

Company	Patents
Cost	£
At 1 January 2016	2,806,603
Additions	73,057
At 31 December 2016	2,879,660
Amortisation	
At 1 January 2016	1,647,893
Charge for the year	57,007
Impairment	416,811
At 31 December 2016	2,121,711
Net book value	757,949
At 31 December 2016	
At 31 December 2015	1,158,710

### Amortisation and impairment charge

The amortisation and impairment charge is recognised in administrative expenses in the income statement. Since 2005 the Group has pursued an active policy in the patenting of key intellectual property, primarily related to its US-based enterprise payments system. Several relevant patents have already been granted in the USA (3), Japan (3) and China (2) with a capitalised cost of £0.76m with 20 additional patents pending at 31 December 2016 across America, Asia and Europe. None of these patents have been re-valued upwards to reflect any market based valuation methodologies.

However, during the year £0.42m (2015: £1.4m) additional amortisation was charged to the consolidated income statement to reflect older, lapsed patent applications and fall into line with the IFRS accounting policy standards.

Notes (continued)

11 Tangible fixed assets

Group	Computer hardware, software and websites	Fixtures, fittings & equipment	Total
	£	£	£
<b>Cost</b>			
At 1 January 2015	2,348,029	205,256	2,553,285
Additions	396,757	46,560	443,317
Disposal	-	(4,310)	(4,310)
FX Adjustment	(5,035)	(2,826)	(7,861)
<b>At 31 December 2015</b>	<b>2,739,751</b>	<b>244,680</b>	<b>2,984,431</b>
<b>Depreciation</b>			
At 1 January 2015	1,496,305	130,703	1,627,008
Charge for the year	471,388	32,977	504,365
Disposal	-	(3,053)	(3,053)
FX Adjustment	(1,974)	(578)	(2,552)
<b>At 31 December 2015</b>	<b>1,965,719</b>	<b>160,049</b>	<b>2,125,768</b>
<b>Net book value</b>			
At 31 December 2015	774,032	84,631	858,663
At 31 December 2014	851,724	74,553	926,277

Group	Computer hardware, software and websites	Fixtures, fittings & equipment	Total
	£	£	£
<b>Cost</b>			
At 1 January 2016	2,739,751	244,680	2,984,431
Additions	340,859	185,834	526,693
Disposal	(52,481)	-	(52,481)
FX Adjustment	16,720	13,461	30,181
<b>At 31 December 2016</b>	<b>3,044,849</b>	<b>443,975</b>	<b>3,488,824</b>
<b>Depreciation</b>			
At 1 January 2016	1,965,719	160,049	2,125,768
Charge for the year	510,475	59,097	569,572
Disposal	(27,254)	-	(27,254)
FX Adjustment	8,890	5,173	14,063
<b>At 31 December 2016</b>	<b>2,457,830</b>	<b>224,319</b>	<b>2,682,149</b>
<b>Net book value</b>			
At 31 December 2016	587,019	219,656	806,675
At 31 December 2015	774,032	84,631	858,663

## Notes (continued)

### 12 Profit for the financial year

As permitted by section 408 Companies Act 2006, the ultimate parent's profit and loss account has not been included in these financial statements. The profit for the financial year is as follows:

	2016	2015
	£	£
Ultimate parent's profit/(loss) for the financial year	512,443	(284,830)
	=====	=====

### 13. Fixed asset investments

Company	Shares in group undertakings £
<i>Cost</i>	
At 1 January 2016 and 31 December 2016	3,895,419
<i>Provisions for diminution in value</i>	
At 1 January 2016 and 31 December 2016	-
<i>Net book value</i>	
At 31 December 2016	3,895,419
At 31 December 2015	3,895,419

In the opinion of the directors, the aggregate value of the company's investments in subsidiary undertakings is not less than the amount included in the balance sheet.

The company holds the following issued ordinary share capital in the group undertakings listed below:

Company	Country of registration or incorporation	Shares held	%
<b>Subsidiary undertakings</b>		<b>Class</b>	
Cognosec GmbH	Austria	Ordinary	100
Securetrading Group Limited	England	Ordinary	80
Securetrading Limited*	England	Ordinary	80
Secure G Holdings Limited*	England	Ordinary	80
SG Four Limited*	England	Ordinary	80
SG Seven Limited*	England	Ordinary	80
Securetrading Inc*	USA	Ordinary	80
UC Capital Limited	England	Ordinary	100
UC Asia Limited**	Hong Kong	Ordinary	100
Trademarklogo.com Limited**	Hong Kong	Ordinary	100
Securetrading Group Inc*	USA	Ordinary	80
SecureTrading FS Holding Limited*	Malta	Ordinary	80
SecureTrading Financial Services Limited*	Malta	Ordinary	80

**Note (continued)**

**Fixed asset investments (continued)**

The principal activity of these undertakings for the last relevant financial year was as follows:

Subsidiary undertakings	Principal activity
Cognosec GmbH	IT and risk services
SecureTrading Group Limited	Development and operation of payment systems
SecureTrading Limited*	Development and operation of payment systems
Secure G Holdings Limited*	Investment holding and management company
SG Four Limited*	Payment service provider
SG Seven Limited*	Payment service provider
SecureTrading Inc*	Payment service provider
UC Capital Limited	Holding company for minority interests, joint ventures and provision of consultancy services
UC Asia Limited**	Investment holding company of Trademarklogo
Trademarklogo.com Limited**	Online legal trademark registration system
SecureTrading Group Inc*	Holding company for USA subsidiaries
SecureTrading FS Holding Limited*	Holding company
SecureTrading Financial Services Limited*	Financial services

\*Interest held through Securetrading Group Limited

\*\*Interest held through UC Capital Limited

The company also had 80% holdings, either directly or indirectly in the following UK dormant companies; Cognosec Limited; SG One Limited, SG Two Limited, SG Three Limited, and SG Six-GW Limited.

**14. Non-Controlling interest**

The following is summarised financial information for the STG sub group, prepared in accordance with IFRS. The information is before inter-company eliminations. Other companies in the group include SecureTrading Ltd, Secure G Holdings Ltd, Secure Trading Group Inc, SecureTrading FS Holding Ltd, SecureTrading Financial Services Limited.

	2016	2015
	£	£
Revenue	37,214,886	15,465,843
Loss	(2,834,104)	(5,527,645)
Loss attributable to NCI	(566,821)	(1,107,692)
Other Comprehensive Income	1,159,288	1,446,201
Total comprehensive income	(3,993,395)	(4,092,259)
Total comprehensive (loss) / income attributable to NCI	(798,679)	818,452
Current Assets	57,729,666	20,440,126
Non-current assets	4,920,227	3,741,201
Current liabilities	(86,240,586)	(43,632,935)
Non-current liabilities	(273,056)	(418,748)
Net liabilities	(23,863,749)	(19,870,356)
Net liabilities attributable to NCI	(5,543,819)	(4,745,140)
Dividends paid to NCI during the year	Nil	Nil

**Note (continued)**

**15. Financial assets classified as available-for-sale**

Financial assets classified as available-for-sale:

	2016	2015
	£	£
Investment in Visa Europe Limited	-	1,423,780

Following the public announcement on 2 November of the proposed sale Visa Europe Limited ("Visa Europe") to Visa Inc., the fair value of the Company's equity interest in Visa Europe being 1 ordinary share of €10 was established by reference to the consideration offered by Visa Inc. A gain was recognised in the Consolidated Statement of Comprehensive Income for 2015 for the revised valuation.

On 22 April 2016, Visa Inc. made a further announcement regarding the terms of the agreement. As a result of this announcement, the potential amounts due to the Company was estimated at a cash payment of €1.9m when the deal completes, a deferred payment of €1.67m after three years, with the possibility of a further €0.7m of preferred shares in Visa Inc. allocated over 12 years.

The following fair value was assigned to the Company's interest in Visa Europe Limited at 31 December 2015 as a result of the transaction:

- Cash payment of €1,931,785 (£1,423,70). The fair value of the cash consideration was measured as the Company's expected proportionate share of the upfront proceeds from the sale.
- Preferred shares of €nil. The shares were convertible to Visa Inc. common shares subject to satisfaction of certain conditions and the final amount was subject to a significant litigation contingency. Given the uncertainty surrounding the level of liability for any litigation, and a total period of 12 years before any shares are received, the Company assigned no fair value to this element at 31 December 2015.

During 2016, VISA Inc. and VISA Europe Limited closed the transaction upon which the Company received a cash payment, preferred stock convertible into Visa Inc. class A common stock, and deferred cash consideration. The Company transferred the preferred stock to a related entity for of €630,536 and, accordingly, recognised the full value of €2,562,321 (£2,065,055) proceeds from the Visa transaction in the profit or loss, with the fair value of £1,423,780 recognised up to 31 December 2015 being reversed from other comprehensive income.

**16. Trade and other receivables**

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
<b>Current</b>				
Trade debtors	1,805,585	952,756	-	-
Amounts due from card schemes	13,850,260	5,169,801	-	-
Current collaterals	5,976,468	-	-	-
Amounts owed by Group Undertakings	-	-	4,574,606	6,978,470
Other debtors	2,294,068	4,446,136	1,120,769	293,968
Prepayments and accrued income	725,532	295,311	-	-
Deferred tax asset	-	405,170	-	-
	<u>24,651,913</u>	<u>11,269,174</u>	<u>5,695,375</u>	<u>7,272,438</u>

**Note (continued)**

**17. Current liabilities**

	Group 2016	2015	Company 2016	2015
	£	£	£	£
Bank loans and overdrafts	17,956,850	15,770,646	-	-
Principal amounts due on Finance Leases	214,816	223,067	-	-
Trade creditors	5,640,348	4,089,458	-	-
Funds due to merchants	55,995,913	12,568,788	-	-
Amounts due to group undertakings	-	-	17,976	-
Other taxes and social security costs	1,124,924	1,151,352	(5,740)	-
Other creditors	1,371,236	4,843,138	1,136,762	3,707,216
Accruals and deferred income	5,665,778	2,034,645	-	-
	<u>87,969,865</u>	<u>40,681,094</u>	<u>1,148,998</u>	<u>3,707,216</u>

The loan balance of £18m on above at 31 December 2016 (2015: £15.8m) has been reclassified as less than 1 year. Please see Note 1.5 Going Concern.

**18. Non-current liabilities**

Group	2016	2015
	£	£
Loan	-	-
Less: loan arrangement fee	-	-
Finance leases	273,056	418,748
Net liability of the loan	<u>273,056</u>	<u>418,748</u>
	2016	2015
	£	£
Maturity of debt		
In one year or less or on demand	18,313,853	16,298,401
In more than one year but not more than two years	183,777	183,657
In more than two years but not more than five years	89,279	235,091
Capitalised loan arrangement fee	(142,187)	(304,688)
	<u>18,444,722</u>	<u>16,412,461</u>



Note (continued)

19. Provisions for deferred tax

The group has an unrecognised deferred tax asset of £5,577,539 at 17% (2015: £5,168,630 at 18%) which has not been recognised on the grounds that there is insufficient evidence that the asset will be recovered.

20. Share capital

	2016 £	2015 £
<i>Allotted, called up and fully paid</i>		
948,898,764 A ordinary shares of £0.0001 each	94,890	94,890
10 B ordinary shares of £0.0001 each		
	<u>94,890</u>	<u>94,890</u>

The holders of the A ordinary Shares hold between them no more than 49.5% of the total voting rights. The holders of the B ordinary shares hold between them no more than 50.5% of the total voting rights. The A ordinary and B ordinary shares rank pari passu in all other respects.

During 2015, the Company issued 8,150,887 A ordinary shares of £0.00001 per share at the following prices:

At Quantity	Type of Consideration	Price per share £
3,710,887	Cash	0.50
4,440,000	Services provided to the Group	See note below

During 2015, the Company issued 4,400,000 shares to an existing shareholder in connection with their assistance in arranging funding. The 4,440,000 shares have been valued in the accounts at £49,560.

21. Directors' emoluments

	2016 £	2015 £
Emoluments for qualifying services	743,962	657,798

The highest paid director in the year received remuneration of £355,075 (2015: £348,348).

**Note (continued)**

**22: Shared based payments**

The company recognised total expenses of *£nil* (2015: £83,297) relating to equity settled share-based payment transactions during the year comprising *£nil* (2015: £33,737) relating to a share option scheme for employees and *£nil* (2015: £49,560) to an issue of shares in the year.

The company continued to operate a share option scheme for employees (including directors and consultants). Under the scheme, the company may grant HMRC approved EMI share options and unapproved options to acquire ordinary shares in UC Group Limited.

Options may not normally be exercised until three years after the grant date or upon change in control, if earlier, although in some cases options are granted with shorter exercise periods.

In the year ended 31 December 2016, there were 6,500,000 options granted (2015: 1,000,000). There were 44,554,114 share options outstanding at the end of the year, 28,332,000 of these had an exercise price of 5p per share, 1,152,000 of them had an exercise price of 10p per share and 15,070,114 of them had an exercise price of 15p per share. The weighted average remaining contractual life of these options was 5.41 years.

The following table shows the movement of share options during the year:

	2016 Number	2015 Number
Outstanding at the beginning of the year	50,299,914	51,115,914
Granted during the year	6,500,000	1,000,000
Options exercised during the year	-	-
Lapsed during the year	(12,245,800)	(1,816,000)
Outstanding at the end of the year	44,554,114	50,299,914

**23. Control**

The ultimate controlling party is J A Paulsen, a director of the company, who controls the company as a result of controlling directly more than 50.5% of the voting rights of the company in the form of B ordinary shares.

**24. Related Party Transactions**

**Group**

Mansion Associates Limited ("MAL") is majority owned by Mr J A Paulsen, director of UC Group Limited. It incurs certain consultancy and head office costs on behalf of the company. These services have been recharged on a commercial basis. Cognosec AB and Cognosec Limited is majority owned by Mr J A Paulsen, director of UC Group Limited. All related party transactions are at arms-length and not secured.

**Note (continued)**

**Related Party Transactions (continued)**

	2016 Sales	2015 Sales	2016 Purchases	2015 Purchases	2016 Year End	2015 Year End
Cognosec Limited						
Cognosec AB	839,079	818,151			839,079	(45,549)
Mansion Associates Ltd	-	2,369,117	401,557		401,557	1,320,329

£1.0m of revenue was recognised in 2016 (2015: £1.0m) from a sale of a licence for the use of certain business process patents developed and owned by the Group to a related party of Ramphastos Investments NV, of which M. J. Boekhoorn, director of UC Group Limited, has a holding.

**25. Subsequent events**

There have not been any significant events after the balance sheet date which require disclosure of or an adjustment in the financial statements.