

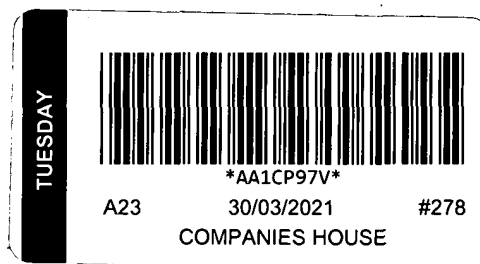
Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

Telensa Ltd

Company Registration No. 04498125

Report and Financial Statements
31 March 2020



Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

Company Information

Directors

B Hudson appointed 18 December 2019

C Potgieter appointed 29 February 2020

Secretary

J Stevens

Auditor

Grant Thornton UK LLP

Chartered Accountants and Statutory Auditors

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Milton Road

Cambridge

CB4 0FY

United Kingdom

Bankers

Silicon Valley Bank

Alphabeta

14-18 Finsbury Square

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EC2A 1BR

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Iconix 3

London Road

Pampisford

Cambridge

CB22 3EG

United Kingdom

Telensa Limited
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Telensa Limited

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Strategic report

Principal activities and review of the business

The Company is involved in the development, sale, installation and support of wireless telemetry systems for the management and control of public lighting and other smart city applications.

The Company's strategic objective is to remain the global leader in smart lighting and become a global leader in other smart city applications. Capitalising on the growing adoption of LED streetlights across the world, the Company has continued to invest in its international commercial organisation, to accelerate sales in new geographic markets. The Company has deployed new pilots in multiple geographies such as Canada, New Zealand, Dubai, Oklahoma and various locations in the UK.

The Company is developing new technology and solutions to enable cities to own, harness and monetise their vast untapped data assets. In turn, this is expected to support the existing core smart lighting business.

Key Financial Performance Indicators

The Company's key financial performance indicators during the year were as follows:

	Year ended 31 March 2020 £	Year ended 31 March 2019 £	Change %
Revenue	13,786,571	14,707,774	(6%)
Operating loss	(4,167,967)	(3,864,657)	8%
Loss for the year attributable to equity shareholders	(4,177,972)	(3,024,383)	38%
Gross Profit %	57%	61%	(3%)
Average monthly number of employees	88	102	(14%)

Revenue from the sale of product and supply of services decreased during the year, primarily due to the completion of some longer-term projects and customers delaying orders due to the early impacts of COVID-19.

The Company continued to incur operating losses during the year. This was predominantly due to decreased gross profit generated as a result of reduced sales.

In addition, the Company incurred an increase in the finance expenses associated with the debt facility drawn down in January 2019 which was then subsequently restructured in February 2020.

Telensa Limited

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Principal risks and uncertainties

Telensa Holdings Limited is the parent Company of the Telensa Group, of which Telensa Limited is a significant subsidiary. The directors of Telensa Holdings Limited and its subsidiaries (the "Group") manage the risks at a group level, rather than at an individual Company level.

The principal risks and uncertainties of the Group, which include those of the Company, are:

- A change in the industry business dynamic may lead to loss of market share
- Advances in technology and introduction of new competitive products may lead to loss of market share
- Changes in the competitive landscape and new entrants into the market place may lead to loss of market share.

The Company has a robust risk management and internal control process in place to identify key risks and to assign ownership of each risk at a senior management level to identify both existing and planned management activities to mitigate each risk and to assess the residual likelihood and impact of each risk and ensure ongoing monitoring and reporting of each key risk.

Financial risk management objectives and policies

The Board has overall responsibility for risk management and internal controls and is assisted by the Audit Committee. This includes management of market risk, credit risk, liquidity risk and review and assessment of the internal control environment.

The Company derived its revenues in the year by selling products and services income. The Company's principal products, being electronic products manufactured in Wales, are denominated in US Dollars. Where possible, the Company seeks to take payment for the sale of such products also in US dollars, thereby mitigating the Company's foreign exchange risk. Management will continue to monitor this going forward.

Credit risk is the risk that the counterparty will fail to discharge its obligation. The Company's principal financial assets are bank balances, trade and other receivables, which represent the Company's maximum exposure to credit risk in relation to financial assets. The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for expected credit losses, estimated by the Company's management based on prior experience and its assessment of the current economic environment. The Company has a concentration of credit risk, with exposure spread over a small number of counterparties and customers. New customers are subject to an initial credit assessment and credit limits are reviewed on an on-going basis and subject to senior management oversight. The payment position of past due trade receivables is monitored daily and actively managed.

The standard credit terms for sales are thirty (30) days net.

The Company's success continues to depend on its ability to sustain its market position. During the year, it has maintained its position as a market leader in the UK and has begun expansion into new overseas markets.

Future developments

Unlike many applications in the Internet of Things (IoT), connected street lighting has a business case proven over many years. Cities are now looking to build on this platform to add and integrate sensor applications.

The Company believes that a strong driver for future revenue growth will be its smart cities products & services and has accelerated R&D expenditure and sales effort in this area.

Telensa Limited

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Going concern

As set out in Note 18 to the financial statements, the Company had £1.5 million in cash and cash equivalents as at 31 March 2020.

During the year, recognising that the core smart lighting business revenue was falling behind expectations and that the Company had been unsuccessful in raising equity capital to continue to support the significant investment required in the Urban Data Project related activities, the directors took actions to implement a cost reduction programme to reduce operating costs, in particular to the Urban Data Project, and to realign the focus of the business to be on smart lighting and other smart city applications.


During Q4 20 the Company had implemented a recovery plan and was over-achieving against the plan, and was supported by investment from existing shareholders of £1.1m by means of an unsecured loan and a restructure of the debt facility.

The early impact of COVID-19 lead to customers delaying orders and the temporary shutdown of our product manufacturing partner. Management took rapid steps to protect the business in these uncertain times by reducing the variable and fixed cost base for a period of time. Short term cash flow forecasting on a weekly basis has been maintained throughout to inform management when cash balances may become more pressured and by utilising the financial support made available by the Government by deferring existing tax obligations to conserve cash.

The manufacturer's lockdown was lifted in May 2020 and the debt facility has been restructured again, as a result the directors are confident that the business has sufficient capital to remain self sustaining.

After reviewing the Company's forecasts and projections, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements

On behalf of the Board



B Hudson

Director

17 June 2020

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

Directors' Report

The directors present their report and financial statements for the year ended 31 March 2020.

Results and dividends

The loss for the year after taxation amounted to £4,177,972 (2019 - £3,024,383). The directors do not recommend a final dividend.

Board of directors

The Company is controlled through the Board of Directors, which comprises two executive directors who bring a wide range of skills and experience to the Board. It is responsible for overall Company strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It reviews the strategic direction of the Company and conducts formal strategy reviews together with other senior executives within the Company at least once a year.

Financial control

The Company's strategic direction is reviewed regularly by the Board and plans, budgets and performance targets are reviewed and approved at least annually. Directors receive monthly summaries of financial results which compare actual performance with targets, together with detailed management reports that identify the reasons for variances and the progress achieved. Business planning documents are revised on a regular basis in line with actual and expected performance.

Directors

The directors who served throughout the year, and to the date of approval of this report were those listed below:

W Franks resigned 18 December 2019

J Smith resigned 29 February 2020

B Hudson appointed 18 December 2019

C Potgieter appointed 29 February 2020

Financial risk management and policies

The Company's financial risk management and policies is as specified in the strategic report.

Insurance

The Company continues to maintain directors' and officers' insurance.

Auditor

Grant Thornton UK LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them as auditor will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board



B Hudson

Director

17 June 2020

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 and 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 accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union 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 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and,
- the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

Independent Auditor's report to the members of Telensa Ltd

Opinion

We have audited the financial statements of Telensa Limited (the 'Company') for the year ended 31 March 2020 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Company associated with these particular events.

Material uncertainty related to going concern

The Company incurred a loss of £4,177,902 (2019 - £3,204,383). We draw your attention to note 3 in the financial statements, which indicates that the Company's forecast revenues and cashflows is highly uncertain. This, along with the other factors set out in note 3, indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report has been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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.

Responsibilities of directors for the financial statements

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

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

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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.

Grant Thornton UK LLP

Alison Seekings
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge

19/6/2020

Telensa Limited**Audited Financial Report and Accounts for year ended 31 March 2020****Statement of comprehensive income***For the year ended 31 March 2020*

	Notes	2020 £	2019 £
Revenue	5	13,786,571	14,707,774
Cost of sales		(5,910,347)	(5,618,742)
Gross profit		7,876,224	9,089,032
Administrative expenses		(12,044,191)	(12,953,689)
Operating loss	6	(4,167,967)	(3,864,657)
Finance income	10	-	14
Finance costs	11	(990,330)	(268,044)
Loss on ordinary activities before taxation		(5,158,297)	(4,132,687)
Tax credit on loss on ordinary activities	12	980,325	1,108,304
Loss for the financial year		(4,177,972)	(3,024,383)
Other comprehensive income for the year		-	-
Total comprehensive loss for the year		(4,177,972)	(3,024,383)

There are no other items of Comprehensive Income, and the results are all derived from continuing operations.

The notes on pages 13 – 39 are an integral part of these financial statements.

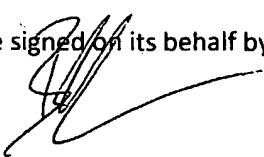
Telensa Limited**Audited Financial Report and Accounts for year ended 31 March 2020****Statement of financial position****As at 31 March 2020**

	Notes	2020 £	2019 £
Non-current assets			
Property, plant and equipment	13	1,787,235	736,902
Intangible assets	14	1,321,036	1,848,474
Investment in subsidiary	15	3	3
Non-current assets		3,108,274	2,585,379
Current assets			
Inventories	16	2,205,304	3,295,388
Trade and other receivables	17	7,385,165	7,340,083
Current tax	23	980,325	1,108,304
Cash and cash equivalents	18	1,490,955	5,617,457
Current assets		12,061,749	17,361,232
Total assets		15,170,023	19,946,611
Equity attributable to owners of the parent			
Share capital	24	103	103
Retained earnings		(2,496,756)	527,637
Capital contribution	25	4,000,000	4,000,000
Share based payment reserve	26	1,463,437	2,492,949
Total equity		2,966,784	7,020,689
Non-current liabilities			
Lease liability	22	1,228,230	-
Borrowings	20	7,479,422	6,895,000
Non-current liabilities		8,707,652	6,895,000
Current liabilities			
Trade and other payables	19	3,274,709	5,937,130
Provisions	21	72,261	93,792
Borrowings	20	-	-
Lease Liability	22	148,617	-
Current liabilities		3,495,587	6,030,922
Total liabilities		12,203,239	12,925,922
Total equity and liabilities		15,170,023	19,946,611

The notes on pages 13 – 39 are an integral part of these financial statements. These financial statements were approved by the board of directors and authorised for issue on 17 June 2020.

They were signed on its behalf by:

B Hudson
Director



Telensa Limited**Audited Financial Report and Accounts for year ended 31 March 2020****Statement of changes in equity***For the year ended 31 March 2020*

	Share capital £	Capital Contribution Reserve £	Retained Earnings £	Reserve for Share Based payment £	Total Equity £
Balance at 1 April 2019	103	4,000,000	527,637	2,492,949	7,020,689
Transfer of reserves for share based payment	-	-	1,153,579	(1,153,579)	-
Credit to equity for share based payment	-	-	-	124,067	124,067
Transactions with owners	-	-	1,153,579	(1,029,512)	124,067
Loss for the year	-	-	(4,177,972)	-	(4,177,972)
Total comprehensive loss for the year	-	-	(4,177,972)	-	(4,177,972)
Balance at 31 March 2020	103	4,000,000	(2,496,756)	1,463,437	2,966,784

For the year ended 31 March 2019

	Share capital £	Capital Contribution Reserve £	Retained Earnings £	Reserve for Share Based payment £	Total Equity £
Balance as 1 April 2018	103	4,000,000	3,552,020	1,911,436	9,463,559
Credit to equity for share based payment	-	-	-	581,513	581,513
Transactions with owners	-	-	-	581,513	581,513
Loss for the year	-	-	(3,024,383)	-	(3,024,383)
Total comprehensive loss for the year	-	-	(3,024,383)	-	(3,024,383)
Balance at 31 March 2019	103	4,000,000	527,637	2,492,949	7,020,689

The notes on pages 13 – 39 are an integral part of these financial statement

Telensa Limited**Audited Financial Report and Accounts for year ended 31 March 2020****Statement of cash flows**

for the year ended 31 March 2020

	2020 £	2019 £
Operating activities		
Loss before tax for year	(5,158,297)	(4,132,687)
Share based payment	124,067	581,513
Depreciation	493,527	325,045
Amortisation	413,885	142,290
Loss on disposal of property, plant & equipment	1,116	11,291
Impairment of development costs	255,784	87,945
Modified retrospective adjustment for IFRS 15	-	(889,130)
Foreign exchange differences	50,760	(224,019)
Finance income	-	(14)
Interest costs	859,182	268,044
Decrease in trade receivables	283,873	488,655
(Decrease)/Increase in inventories	1,090,084	(2,087,154)
Increase in other receivables	(328,953)	(1,279,894)
(Decrease)/increase in trade payables	(2,939,108)	1,492,883
Increase/(decrease) in other liabilities	361,221	(60,581)
Decrease in provisions	15,091	36,641
Net cash flow from operations	(4,477,768)	(5,239,172)
Taxes paid	-	83,228
R&D Tax Credit	1,108,304	-
Net cash flow from operating activities	(3,369,464)	(5,155,944)
Investing activities		
Capital expenditure on property, plant and equipment	(30,521)	(32,499)
Capital expenditure on intangible assets	(142,232)	(645,741)
Interest received	-	14
Net cash flow from investing activities	(172,753)	(678,226)
Financing activities		
Intercompany loan	584,422	6,895,000
Repayments of bank loan	-	(1,666,666)
Repayment of working capital facility	-	(1,000,000)
Payment of lease liability	(258,765)	-
Interest paid	(859,182)	(268,044)
Net cash flow from financing activities	(533,525)	3,960,290
Decrease in cash and cash equivalents	(4,075,742)	(1,873,880)
Cash and cash equivalents at 1 April	5,617,457	7,267,318
Exchange differences on cash and cash equivalents	(50,760)	224,019
Cash and cash equivalents at 31 March 2020	1,490,955	5,617,457

The notes on pages 13 – 39 are an integral part of these financial statements.

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

Notes to the financial statements

at 31 March 2020

1. General information

Telensa Limited is a Company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on the Company information page. The nature of the Company's operations and its principal activities are set out on pages 1 to 2.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

2. Adoption of New and Revised Standards

2.1 New Standards adopted as at 1 April 2019

The Company has adopted IFRS 16 'Leases' with effect from 1 April 2019.

The adoption of this new Standard has resulted in the Company recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 April 2019.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straightline basis over the remaining lease term.

The following is a reconciliation of total operating lease commitments at 31 March 2019 to the lease liabilities recognised at 1 April 2019:

	£
Total operating lease commitments as at 31 March 2019	1,948,363
Recognition exemption - short-term leases	(7,625)
Operating lease liabilities before discounting	1,940,738
Discount on lease liabilities using incremental borrowing rate	(520,868)
Discounted dilapidation provision	94,586
Total lease liabilities recognised under IFRS 16 at 1 April 2019	1,514,456

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

3. Accounting policies

Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

Exemption from group accounts

The Company has taken advantage of the exemption from preparing consolidated accounts afforded by section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of Telensa Holdings Limited which prepares consolidated financial statements which are publicly available. Information is therefore presented for the individual Company, not its group.

Basis of preparing the financial statements - going concern

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue trading for the foreseeable future.

During the year, the Company incurred a loss of £4,177,972 (2019 – £ 3,024,383). Throughout the year the Company continued with investment in sales, marketing, product development, operations and engineering development staff, as well as expenses associated with the introduction of new products. At 31 March 2020 the cash balance available to the Company was £ 1,490,955. In assessing whether the going concern assumption is appropriate, management has considered the Company's existing working capital position and its investment requirements and its ability to execute business in line with forecasts. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future without significant curtailment of operations.

The Company is developing its product roadmap in a prudent manner. This investment will further differentiate the lighting offer, open new sensor application revenue streams, and enable commercial partnerships with smart city data platforms. Following the refinancing and debt restructuring, the Company's revenues from sales of products and services are expected to be sufficient for the Company to support this level of investment and become cash generative from commercial operations over the next twelve months. Costs were reduced on a permanent basis in early 2020 to strengthen the Company's working capital position. However, a shortfall against revenues currently forecast would place additional constraints on working capital.

The impact of COVID-19 on the Company's forecast revenues and cashflows may be significant and is highly uncertain. This, together with the factors above, indicate the existence of a material uncertainty which may cast a significant doubt on the Company's ability to continue as a going concern.

Given the market potential and the business plan agreed by the Board, the directors are of the opinion that it is reasonable to continue to adopt the going concern basis of accounting in preparing these financial statements.

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

3. Accounting policies (continued)

Revenue recognition

Revenue arises from the sale of wireless telemetry systems for the management and control of public lighting and other smart city applications product and services.

To determine whether to recognise revenue, the Company follows a five- step process:

1. Identifying the contract with the customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligations(s) are satisfied.

The Company often enters into transactions involving a range of the Company's products and services, for example the delivery of hardware, software and related services. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices.

Revenue is recognised either at a point in time or over time, when (or as) the Company satisfies performance obligations by transferring the promised goods or services to its customers.

The Company recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as deferred income within trade and other payables in the statement of financial position (see note 19). Similarly, if the Company satisfies a performance obligation before it receives the consideration, the Company recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than a passage of time is required before the consideration is due.

Revenue accounting policy – supplementary disclosures

PLANet central system

The Company sells software that is required to allow its own hardware to operate. Accordingly, this software licence is only sold alongside hardware. Revenue is recognised at the point that the software has been made available to the customer and as the associated hardware becomes under the control of the customer, which is generally after configuration on delivery to the customer's premises.

Telecells

Revenue is recognised at the point that the hardware supplied becomes under the control of the customer. This is generally on delivery to the customer's premises. The installation of Telecells is the responsibility of the customer. However, where customer contracts include acceptance criteria for the testing of the Telecells following installation, revenue recognition is deferred until the acceptance testing is completed.

Maintenance and support

Maintenance and support are recognised on a straight-line basis over the term of the contract, which is typically one year. Revenue not recognised in the period that the services are provided in the profit or loss is classified as deferred revenue on the statement of financial position.

Services

Services revenue includes consultancy and training. Services revenue from time and material contracts is recognised in the period that the services are provided on the basis of time worked at agreed contractual rates and as direct expenses are incurred.

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

3. Accounting policies (continued)

Revenue accounting policy – supplementary disclosures (continued)

Revenue from fixed price, long-term customer specific contracts is recognised on the stage of completion of each assignment at the period end date compared to the total estimated service to be provided over the entire contract where the outcome can be estimated reliably. If a contract outcome cannot be estimated reliably, revenues are recognised equal to costs incurred, to the extent that costs are expected to be recovered. An expected loss on a contract is recognised immediately in the income statement.

Timing of payment

Maintenance and support income is invoiced annually in advance at the commencement of the contract period. Other revenue is invoiced based on the contract terms in accordance with performance obligations. Amounts recoverable in contracts (contract assets) relate to our conditional right to consideration for completed performance obligations under the contract prior to invoicing. Deferred income (contract liabilities) relate to amounts invoiced in advance of services performed under the contract.

Warranty

The Company provides a basic 10 year product warranty on its hardware whether sold on a stand-alone basis or as part of an integrated system. Under the terms of this warranty customers can return the product for repair or replacement if it fails to perform in accordance with published specifications. These warranties are accounted for under IAS 37.

Foreign currency

The financial statements are presented in the currency of the primary economic environment in which it operates (its functional currency). The UK pound is the predominant functional currency of the Company and presentation currency for the financial statements.

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences are recognised in profit or loss in the period in which they arise.

Pensions

The Company contributes to a defined contribution pension scheme and the pension charge represents the amounts payable by the Company in respect of the year.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on cost less residual value in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Leasehold improvements	Over 10 years
Right-of-use asset	Over 7.5 years
Plant and machinery	Over 3 years
Office equipment	Over 5 years
Computer equipment	Over 3 years
Motor Vehicles	Over 4 years

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

3. Accounting policies (continued)

Leased assets

As described in Note 2, the Company has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17.

The Company as a lessee

For any new contracts entered into on or after 1 January 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-to-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at a present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payment based on an index or rate, amounts expected to be repayable under a residual value guarantee and payments arising from options reasonable certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are any changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of lower-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in the profit or loss on a straight-line basis over the lease term.

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

3. Accounting policies (continued)

Measurement and recognition of leases as a lessor (continued)

On the statement of financial position, right-to-use assets have been included in property, plant and equipment and lease liabilities have been presented separately on the statement of financial position.

Intangible assets

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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

- an asset is created that can be identified;
- the project from which the asset arises meets the Company's criteria for assessing technical feasibility;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.
- the Company intends to and has sufficient resources to complete the project

Internally-generated intangible assets are amortised on a straight-line basis over 3 to 5 years. Amortisation is recognised within administrative expenses within the statement of comprehensive income. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Software costs

Software is stated at cost, net of depreciation and any provisions for impairment. Depreciation is provided on cost less residual value in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Software costs	Over 3 years
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Impairment of tangible and intangible assets

At each statement of financial position date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

3. Accounting policies (continued)

Impairment of tangible assets and intangible assets (continued)

A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is measured as a weighted average and comprises materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Where necessary the Company makes a provision for obsolete and slow-moving inventory.

Trade and other receivables

Trade receivables are recognised at their original invoiced value. Where the time value of money is material, receivables are carried at amortised cost. Provision for credit losses is assessed on an account by account basis using external indicators and historical experience. Balances are written off when the probability of recovery is assessed as being remote.

Cash and cash equivalents

Cash in the statement of financial position comprise cash at bank and in hand. For the purposes of the statement of the cash flows, cash and cash equivalents are as defined above.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the statement of financial position date.

Taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the statement of financial position date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.
- Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the statement of comprehensive income.

Share based payments

The Company issues equity settled share based payments to certain employees. Equity settled share based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity settled share based payments is expensed on a

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

3. Accounting policies (continued)

Share based payments (continued)

straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Share capital and reserves

Share capital

Ordinary shares are classified as equity. Equity instruments issued by Telensa Ltd are recorded when proceeds are received, net of direct issue costs.

Retained earnings

Retained earnings include all current and prior period retained profits/losses.

Capital contribution reserves

The amount of £4.0 million represents a permanent capital contribution by the parent Company Telensa Holdings Limited effective following completion of a £ 6 million gross equity funding round in December 2015. The capital contribution is held in distributable reserves.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial information.

Revenue recognition

The policy is to recognise revenue either at a point in time or over time, when (or as) the Company satisfies performance obligations by transferring the promised goods or services to its customers. A key judgement is regarding the identification of the performance obligations and the assessment and impact of acceptance criteria where applicable.

The policy is to recognise revenue in respect of support and software maintenance and hosting fees over the duration of the term of the contract, with hardware being recognised at a point in time when the hardware supplied becomes under the control of the customer. Management considers the detailed criteria for recognition of revenue from the provision of continuous services set out in IFRS 15. The directors are satisfied that the significant risks and rewards are transferred over time and that recognition of the revenue in equal instalments over the duration of the contractual period is therefore appropriate.

Telensa Limited**Audited Financial Report and Accounts for year ended 31 March 2020**

4. Critical accounting judgements and key sources of estimation uncertainty**Capitalised development costs**

An internally generated intangible asset arising from the Company's product development costs is only recognised if all of the recognition criteria have been met as set out under the accounting policies.

Judgement is required to distinguish between the research and development stages of new projects and that management considers that the Company has capitalised development costs from the point at which technical feasibility and commercial viability could be demonstrated and the development projects therefore satisfy the requirements of IAS38 intangible assets. After capitalisation management continue to monitor that the recognition criteria continue to be met. The net book value of capitalised development costs at 31 March 2020 is £1,321,035 (2019 - £ 1,787,916). In 2020, an impairment on development costs of £255,784 (2019 - £87,945), included in administrative expenses, was made on a project where management considered there to be no future economic benefit.

Share-based employee remuneration

Where employees are rewarded using share-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions.

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to retained earnings. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustments to cumulative share-based compensation resulting from a revision is recognised in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period. As at 31 March 2020, the cumulative share-based compensation is £1,463,437 (2019: £2,492,949) presented as share-based payment reserve in the statement of financial position.

Inventories

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

5. Revenue

Revenues are derived from the sale of products and services. The Company's operations and assets are predominantly located in the UK. The following table provides an analysis of the Company's sales by geographical market, irrespective of the origin of the goods or services:

	2020 £	2019 £
UK	7,124,325	5,926,394
USA	3,848,182	7,876,929
Rest of World	2,814,064	904,451
	<u>13,786,571</u>	<u>14,707,774</u>
	2020 £	2019 £
Sale of products	10,793,097	11,786,644
Services	2,993,474	2,921,130
	<u>13,786,571</u>	<u>14,707,774</u>

Information about major customers

Revenue amounting to £ 2,910,747 (2019 - £ 4,089,803) of reported sales can be attributed to significant customers in 2020 of which all was from the USA. No other customers accounted for more than 10 per cent of reported revenue.

6. Operating loss

This is stated after charging/(crediting):

	2020 £	2019 £
Depreciation of property, plant and equipment	493,527	325,045
Amortisation of intangible assets	413,886	142,290
Operating lease costs	7,625	267,084
Research and development costs (excluding staff wages)	972,898	1,459,420
Net foreign exchange losses/(gains)	50,760	(224,019)

Research and development spend, including amounts capitalised was £ 1,115,130 (2019 - £ 2,453,355).

7. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2020 £	2019 £
Fees payable to the Company's auditor:		
Audit of the financial statements	<u>28,000</u>	<u>22,770</u>
Taxation compliance services	2,834	2,525
Other services: R&D and tax advisory	1,925	1,925

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

8. Directors' remuneration

	2020 £	2019 £
Emoluments	408,591	718,786
Pension contributions	21,912	23,552
	<u>430,503</u>	<u>742,338</u>

In respect of the highest paid director	2020 £	2019 £
Emoluments	176,635	277,880
Pension contributions	7,131	12,731
	<u>183,766</u>	<u>290,611</u>

During the year payments were made in respect to a defined contribution pension scheme on behalf of one director (2019 – one).

Included in the above disclosure are amounts paid to third parties for directors' services during the year amounting to nil (2019 - £ 182,000).

9. Staff costs

	2020 £	2019 £
Wages and salaries	6,047,832	6,238,958
Social security costs	724,217	810,345
Pension costs	394,154	388,529
Other employee benefits	235,324	296,364
Share based payment	124,067	581,513
	<u>7,525,594</u>	<u>8,315,709</u>

Included in the wages and salaries above £ 92,687 (2019 – 379,959) related to development work and has subsequently been capitalised.

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

	2020 No.	2019 No.
Technical and management	78	93
Administration	10	9
	<u>88</u>	<u>102</u>

Telensa Limited**Audited Financial Report and Accounts for year ended 31 March 2020****10. Finance income**

	2020 £	2019 £
Other interest	-	14
	<u>-</u>	<u>14</u>

11. Finance costs

	2020 £	2019 £
Interest payable on bank loans	-	63,971
Finance costs on lease	121,156	-
Interest on inter company borrowings	863,515	159,717
Other interest payable	5,659	44,356
	<u>990,330</u>	<u>268,044</u>

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

12. Taxation

The tax charge is made up as follows:

	2020 £	2019 £
Current tax:		
UK corporation tax on profits of the period	-	-
R&D tax credit claim	(980,325)	(1,108,304)
Adjustment in respect of prior year	-	-
	<u>(980,325)</u>	<u>(1,108,304)</u>
Deferred tax:		
Origination and reversal of temporary differences	-	-
	<u>-</u>	<u>-</u>
Total deferred tax (see note 23)	-	-
	<u>-</u>	<u>-</u>
Tax on profit on ordinary activities	<u>(980,325)</u>	<u>(1,108,304)</u>

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

	2020 £	2019 £
(Loss)/profit on ordinary activities before tax	<u>(5,158,297)</u>	<u>(4,132,687)</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2019 - 19%)	(980,076)	(785,211)
Effects of:		
Income not taxable for tax	-	(168,935)
Expenses not deductible for tax	62,553	115,676
Deferred tax not recognised	362,924	185,253
Adjust closing deferred tax to average rate of 19%	-	21,794
Adjust closing deferred tax to average rate of 19%	(33,952)	-
Adjustments in respect of brought forwards values	30,045	-
Research & development tax credit	(421,819)	(476,887)
	<u>(980,325)</u>	<u>(1,108,304)</u>
Current tax charge for the year (see note above)		

HMRC has agreed claims for tax relief for research and development expenditure incurred in prior periods. A further claim is intended to be submitted in respect of qualifying spend in the current year. No deferred tax for trading losses is recognised on the basis that UK losses will be utilised only to the extent taxable profits are not offset by the enhanced research and development deductions.

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

13. Property, plant and equipment

	Plant and machinery £	Leasehold improvements £	Office equipment £	Computer equipment £	Motor vehicles £	Office Building £	Total £
Cost:							
At 1 April 2018	1,090,028	520,085	36,201	192,972	19,495	-	1,858,781
Additions	17,741	-	-	14,758	-	-	32,499
Disposals	(11,006)	-	-	(44,167)	-	-	(55,173)
At 31 March 2019	1,096,763	520,085	36,201	163,563	19,495	-	1,836,107
Additions	4,932	-	-	25,589	-	1,514,456	1,544,977
Disposals	-	-	-	(1,746)	-	-	(1,746)
At 31 March 2020	1,101,695	520,085	36,201	187,406	19,495	1,514,456	3,379,338
Accumulated							
At 1 April 2018	660,709	56,342	8,076	88,447	4,468	-	818,042
Charge for the year	205,476	52,009	6,997	55,690	4,873	-	325,045
Disposals	-	-	-	(43,882)	-	-	(43,882)
At 31 March 2019	866,185	108,351	15,073	100,255	9,341	-	1,099,206
Charge for the year	178,382	52,008	6,996	49,341	4,874	201,927	493,527
Disposals	-	-	-	(630)	-	-	(630)
At 31 March 2020	1,044,567	160,359	22,069	148,966	14,215	201,927	1,592,103
Net book value:							
At 31 March 2020	57,128	359,726	14,132	38,440	5,280	1,312,529	1,787,235
At 31 March 2019	230,578	411,734	21,128	63,308	10,154	-	736,902
At 31 March 2018	429,319	463,743	28,125	104,525	15,027	-	1,040,739

The office building relates to the right of use asset recognised following the adoption of IFRS 16 Leases (see note 22).

At 31 March 2020, the Company had no contractual commitments for the acquisition of property, plant and equipment.

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

14. Intangible assets

	Product development costs £	Software costs £	Total £
Cost:			
At 1 April 2018	1,773,051	44,601	1,817,652
Additions	578,067	67,674	645,741
Impairment	(87,945)	-	(87,945)
At 1 April 2019	2,263,173	112,275	2,375,448
Additions	142,232	-	142,232
Impairment	(255,784)	-	(255,784)
At 31 March 2020	2,149,621	112,275	2,261,896
Accumulated amortisation:			
At 1 April 2018	368,753	15,931	384,684
Charge for the year	106,504	35,786	142,290
At 1 April 2019	475,257	51,717	526,974
Charge for the year	380,684	33,202	413,886
At 31 March 2020	855,941	84,919	940,860
At 31 March 2020	1,293,680	27,356	1,321,036
At 31 March 2019	1,787,916	60,558	1,848,474
As at 31 March 2018	1,404,298	28,670	1,432,968

The carrying amount and remaining amortisation period of non- fully amortised intangible assets as at 31 March 2020 are as follows:

	Carrying amount £	Remaining amortisation period in months No.
Base Stations	1,293,680	48
Software	27,356	19

An impairment of certain product development costs amounting to £255,784 (2019 - £87,945) was made during the year.

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

15. Subsidiaries

The details of the Company's subsidiaries at 31 March 2019 are as follows:

	Shares in subsidiary undertakings £
Cost	
At 31 March 2019	3
Additions	-
At 31 March 2020	<u>3</u>
Net book value:	
At 31 March 2020	<u>3</u>
At 31 March 2019	<u>3</u>

Subsidiary	Country of Incorporation	Percentage of equity held	Nature of business
Telensa Inc	USA	100%	Support activity
Telensa Singapore Pte Ltd	Singapore	100%	Support activity
Telensa Systems Pty Ltd	Australia	100%	Support activity

16. Inventories

	2020 £	2019 £
Raw materials	258,852	209,671
Work in progress	20,932	134,234
Finished goods and goods for resale	1,998,600	2,951,483
Provision against slow moving inventory	(73,080)	-
	<u>2,205,304</u>	<u>3,295,388</u>

During the year, inventories with a total value of £ 4,580,939 (2019 - £ 4,375,458) were included in the statement of comprehensive income as an expense.

Inventories with a total cost of £212,507 were directly written off during the year (2019 - £ 58,974). A provision of £73,080 (2019 – nil) has been provided for slow moving finished goods.

Telensa Limited

Audited Financial Report and Accounts for year ended 31 March 2020

17. Trade and other receivables

	2020 £	2019 £
Trade receivables	2,212,869	2,496,742
Amounts owed by group undertakings	4,172,139	3,674,619
Prepayments	410,866	537,865
Other receivables	589,291	630,857
	<u>7,385,165</u>	<u>7,340,083</u>

The net carrying values of trade receivables, amounts owed by group undertaking and other receivables are considered reasonable approximation of their fair value.

The credit period taken on sales of goods at the year-end is 59 days (2019 - 62 days).

The Company is exposed to credit risk from the granting of trade credit for sales to customers. The Company mitigates this credit risk by obtaining payments in advance from customers for orders for equipment.

Included in the Company's trade receivables balance are debtors with a carrying amount of £ 729,648 (2019 - £ 305,500) which are past due at the reporting date for which the Company has not provided for as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The Company does not hold collateral over these balances.

Ageing of trade receivables is as follows:

	2020 £	2019 £
Not yet due	1,483,221	2,191,242
1-60 days past due	603,602	236,680
More than 90 days past due	126,046	68,820
	<u>2,212,869</u>	<u>2,496,742</u>

The company assesses impairment of trade receivables on an individual basis and in such assessment, the Company uses its historical experience to calculate expected credit losses. No impairment loss was recognised during the year and no credit loss provision was set against trade receivable as at year-end.

18. Cash and cash equivalents

	2020 £	2019 £
Cash at bank and in hand	<u>1,490,955</u>	<u>5,617,457</u>

Telensa Limited**Audited Financial Report and Accounts for year ended 31 March 2020****19. Trade and other payables*****Due within one year***

	2020 £	2019 £
Trade payables	1,390,586	4,329,694
Accruals and deferred income	1,495,591	1,332,170
Other taxes and social security costs	330,109	220,770
Other payables	58,423	54,496
	<u>3,274,709</u>	<u>5,937,130</u>

20. Borrowings

	2020 £	2019 £
Inter Company loan	<u>7,479,422</u>	<u>6,895,000</u>
	<u>7,479,422</u>	<u>6,895,000</u>

Inter company loan

The amount of £7,479,422 represents a loan by the parent Company, Telensa Holdings Limited following completion of a debt facility in January 2019 bearing a fixed interest rate of 10% per annum less arrangement fees. The parent Company, had the loan re-structured with the bank in February 2020 bearing a fixed interest rate of 12% per annum less arrangement fees. The loan has an interest only period of twelve months, followed by a repayment over thirty- six equal monthly payments of the principal plus accrued interest. The loan has been further re-structured with the bank in May 2020 resulting in a reduction to the interest payable and a holiday on the principal payments by supporting the Company through the impact of COVID-19. The Company has the option to capitalise any underpayment of the interest at the end of the extension period.

Registration of charge

A registration of charge was filed at companies house effective 14 January 2019. The instrument contains fixed charge(s), floating charge(s) (floating charge covers all the property of or undertaking of the Company) and contains a negative pledge.

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21. Provisions

	Warranty £	Dilapidation £	Total £
At 1 April 2019	57,170	36,622	93,792
Provision in the year	15,091	-	15,091
Transfer to lease liability		(36,622)	(36,622)
At 31 March 2020	72,261	-	72,261

The warranty provision represents management's best estimate of the Company's liability under a ten year warranty period granted on products, based on past experience for defective products.

Following the adoption of IFRS 16 Leases the dilapidation provision has been included in the valuation of the lease liability.

22. Leases

The Company leases its head office building in Cambridge. The lease commenced in September 2016 for a term of 10 years with an option to break on the third anniversary and sixth anniversary of the lease. This lease is recognised in the statement of financial position as right of use asset (classified as property, plant and equipment) and lease liability. The estimated costs keep the property in a good state and in its original condition at the end of the lease are included in the initial measurement of the lease liability and right of use asset. The average incremental borrowing rate applied to lease liability recognised was 8%.

Right of use asset	£
Opening balance of right of use asset	1,514,456
Depreciation	(201,927)
Net book value 31 March 2020	1,312,529
Lease liability	
Current	148,617
Non- current	1,228,230
	(1,376,847)

The lease liability is secured by the related underlying asset. The maturity analysis of the lease liability as at 31 March 2020 is as follows:

	Minimum lease payment due						
	Within 1 year £	1-2 Years £	2-3 Years £	3-4 Years £	4-5 Years £	After 5 Years £	Total £
Lease payments	258,765	258,765	258,765	258,765	258,765	297,845	1,850,435
Finance charges	(110,148)	(98,258)	(85,418)	(71,550)	(56,573)	(51,641)	(473,588)
Net present values	148,617	160,507	173,347	187,215	202,192	504,969	1,376,847

Lease payments not recognised as lease liability.

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22. Leases (continued)

The Company elected not to recognise lease liability for short term property leases all of which expired in March 2020. The expense on short term leases relating to payments not included in the measurement of lease liability amounted to £7,625.

23. Taxation

Deferred taxation

	2020	2019
	£	£
At beginning of year	-	-
(Credit)/Charge for year	-	-
At end of year liability	-	-

No deferred tax asset is recognised at 31 March 2020 on share option deductions and trading losses given the availability of enhanced research and development spend deductions. Trading losses amount to £4.3m (2019 £3.5m).

Current tax debtor

	2020	2019
	£	£
R&D tax claim	980,325	1,108,304
	<u>980,325</u>	<u>1,108,304</u>

24. Share capital

	2020	2019
	£	£
Called up, allotted, paid:		
1,000,000 (2018 – 1,000,000) A ordinary shares of £ 0.0001 each	100	100
31,500 (2018 – 31,500) B ordinary shares of £ 0.0001 each	3	3
	<u>103</u>	<u>103</u>
	2020	2019
Total shares authorised at 31 March	<u>1,031,500</u>	<u>1,031,500</u>

The Company is a 100% owned subsidiary of Telensa Holdings Limited.

The A ordinary shares carry voting rights and the right to receive a dividend. The B ordinary shares carry no voting rights and no right to receive a dividend other than with the written approval of the A ordinary shareholders but rank pari passu with holders of the A ordinary shares in all other respects.

25. Capital contribution

The amount of £ 4 million represents a permanent capital contribution by the parent Company Telensa Holdings Limited following completion of a funding round in December 2015. In making its judgement management consider that this be treated as a capital contribution to reserves instead of an intercompany loan, on the basis that no repayment terms are in place.

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26. Share based payments

The Company has applied the requirements of IFRS2 share based payments. The Company issues equity settled share-based payments to certain employees over shares of its parent Company Telensa Holdings Limited. Equity settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value at the grant date of the equity settled share-based payment is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Details of share options granted and outstanding during the year are as follows:

	2020	2020	2020	2020
	No. of share options	Weighted Average Exercise price £	No. of share options	Weighted Average Exercise price £
Outstanding at the beginning of the year	14,382,601	£ 0.14	10,816,784	£ 0.14
Granted during the year	28,000	£ 0.16	3,898,155	£ 0.16
Forfeited during the year	(7,127,440)	£ 0.15	(324,421)	£ 0.15
Exercised during the year	(3,125)	£ 0.16	(7,917)	£ 0.16
Outstanding at the end of the year	7,283,161	£ 0.14	14,382,601	£ 0.14
Exercisable at the end of the year	5,895,331	£ 0.16	8,552,422	£ 0.16

Model assumptions were:	Year of grant 2020
Fair value on grant date:	
Price per share pence	£ 0.39
Exercise price pence	£ 0.16
Expected volatility	63%-84%
Option life in years	5
Expected dividends	-
Risk free rate (based on gilt issuance yields)	1.40%

Expected volatility was determined by calculating the historic volatility of a number of comparator companies' share prices over a twelve-month period ahead of the date of grant.

The Company recognised a net charge to profit or loss of £ 124,067 for equity settled share-based payment transactions in 2020 (2019 – charge of £ 581,513).

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27. Pensions

The Company operates a defined contribution plan, whereby the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once contributions have been paid. The contributions are recognised as employee benefit expense when they are due. At the end of the financial year there was an outstanding balance of £ 46,368 (2019 - £ 49,232).

28. Related party transactions

Transactions with Telensa Holdings Limited

Following completion of a funding round in December 2015, £ 4 million, representing a permanent capital contribution, by the parent Company Telensa Holdings Limited was received. An amount of £ 457,629 (2019 - £ 403,223) was owed to Telensa Holdings Limited as at the year-end in relation to costs incurred by Telensa Holdings Limited, settled by Telensa Ltd.

	2020 £	2019 £
Administrative expenses at cost	54,407	91,665
	<u>54,407</u>	<u>91,665</u>

Telensa Holdings Limited completed a debt facility in January 2019 for £ 7,000,000 bearing a fixed annual interest rate of 10% less arrangement fees of £ 105,000, this resulted in an intercompany loan to Telensa Limited in accordance with note 20 of £ 6,895,000. As at the 31 March 2020 the carrying value of the loan is £7,479,422 (2019 - £6,895,000).

Transactions with Telensa Inc

An amount of £3,738,159 (2019 - £2,599,480) was owed by Telensa Inc, a subsidiary, as at the year-end in relation to costs incurred by Telensa Inc, settled by Telensa Ltd.

	2020 £	2019 £
Administrative expenses at cost	1,138,679	750,853
	<u>1,138,679</u>	<u>750,853</u>

Transactions with Telensa Singapore Pte Ltd

An amount of £ 179,390 (2019 - £ 164,121) was owed by Telensa Singapore Pte Ltd, a subsidiary, as at the year-end in relation to costs incurred by Telensa Singapore Pte Ltd, settled by Telensa Ltd. Due to the uncertainty of recoverability of this debt arising from the potential closure of the subsidiary, the Company has waived during the year the entire balance of receivable from the subsidiary as at 31 March 2020.

	2020 £	2019 £
Administrative expenses at cost	15,269	20,065
	<u>15,269</u>	<u>20,065</u>

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28. Related party transactions (continued)

Transactions with Telensa Systems Pty Ltd

An amount of £ 433,980 (2019 - £ 465,798) was owed by Telensa Systems Pty Ltd, a subsidiary, as at the year-end in relation to costs incurred by Telensa Systems Pty Ltd, settled by Telensa Ltd.

	2020	2019
	£	£
Administrative expenses at cost	(31,818)	333,889
	<u>(31,818)</u>	<u>333,889</u>

Remuneration of key management personnel

The remuneration of the directors of the Company is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Key management are considered to be the directors.

	2020	2019
	£	£
Emoluments	408,591	718,786
Employers National Insurance	54,936	71,404
Pension contributions	22,470	23,552
IAS 19 employee benefit (holiday accrual)	4,395	16,147
	<u>490,392</u>	<u>829,889</u>

29. Ultimate parent undertaking and controlling party

The immediate and ultimate parent Company and controlling party is Telensa Holdings Limited, a Company incorporated in the UK whose principal place of business is Iconix 3, London Road, Pampisford, Cambridge, CB22 3EG.

Telensa Ltd is a 100% owned subsidiary of Telensa Holdings Limited. Telensa Ltd has three further subsidiaries Telensa Inc, Telensa Singapore Pte Ltd and Telensa Systems Pty Ltd which are 100% owned by Telensa Ltd.

30. Financial instruments

Financial assets and financial liabilities

The Company's financial assets and liabilities consist of trade receivables and other current receivables, trade payables, borrowings and other current liabilities, which approximate their carrying amounts largely due to the short-term maturities of these instruments. Unless noted, the Company has no other financial instruments. Financial assets and liabilities are included in the financial statements at amortised cost, which is considered to be the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced liquidation or sale.

Liquidity risk management

The primary objectives of the Company's capital management are to ensure that the Company maintains strong credit ratings, manages its cash flow and receivables and to maintain healthy capital ratios in order to support its business and to maximise shareholders' value.

Credit risk is the risk that the counterparty will fail to discharge its obligation. The Company's principal financial assets are cash, trade and other receivables, which represent the Company's maximum exposure to credit risk in relation to financial assets. The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for expected credit losses, estimated by the Company's management based on the trading relationship, prior experience and their assessment of the current economic environment. New customers are subject to an initial credit assessment using

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30. Financial instruments (continued)

external credit reference agencies (where appropriate) and trade references are confirmed (where necessary). These credit limits are reviewed on an on-going basis and subject to senior management oversight. The payment position of past due trade receivables is monitored daily and actively managed.

The Company's borrowings expose the business to limited interest rate risk. The policies for managing these risks are regularly reviewed and agreed by the Board. The Company does not trade in financial instruments.

Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

Interest rate risk

The interest rate profile of the Company's interest bearing financial assets and liabilities is as follows:

As at 31 March 2019	Asset Floating rate £	Liabilities Floating rate £	Liabilities Fixed rate £	Total £
Cash at bank	5,617,457	-	-	5,617,457
Intercompany loan	-	-	6,895,000	6,895,000
Total	5,617,457	-	6,895,000	12,512,457

As at 31 March 2020	Asset Floating rate £	Liabilities Floating rate £	Liabilities Fixed rate £	Total £
Cash at bank	1,490,955	-	-	1,490,955
Intercompany loan	-	-	7,479,422	7,479,422
Total	1,490,955	-	7,479,422	8,970,377

Sensitivity analysis

A favourable change of 1 basis point in interest rates at the statement of financial position date would have no material impact. This calculation assumes that the change occurred at the statement of financial position date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Foreign currency risk

The Company entered into a number of transactions with overseas customers in currencies other than pound sterling. The Company will continue to monitor any exposure to foreign exchange risk and manage it accordingly.

Foreign currency denominated financial assets (trade and other receivables and cash) and liabilities (being trade and other payables) that expose the Company to current risk are disclosed within the table below:

All amounts originally expressed in USD	2020 £	2019 £
Financial assets	418,175	2,896,969
Financial liabilities	593,717	2,888,186

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30. Financial instruments (continued)

Foreign currency risk (continued)

Sensitivity analysis

A 10 (ten) per cent strengthening of the USD against the pound sterling at 31 March 2020 would have increased / (decreased) profit by the amounts shown below. Ten per cent is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. This calculation assumes that the change occurred at the statement of financial position date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 31 March 2019.

Profit and loss and equity impact if the GBP had strengthened by 10 (ten) per cent against the USD:

	2020	2019
	£	£
Loss for the year	(19,505)	976
Equity	(19,505)	976

Profit and loss and equity impact if the GBP had weakened by 10 (ten) per cent against the USD:

	2020	2019
	£	£
Profit for the year	13,076	(177,436)
Equity	13,076	(177,436)

Liquidity risk

It is currently the Company's policy to finance its business by means of equity, a working capital facility and bank loan. The cash position of the Company is regularly reviewed by the Board.

The use of instant access deposits ensures sufficient working capital is available at all times. Sterling denominated borrowings bear interest at rates related to the sterling base rate.

At 31 March 2020, the following are the Company's financial liabilities. The only fixed rate financial liabilities held was in respect of the intercompany borrowing.

All are due within six months	2020	2019
	£	£
Trade payables	1,390,586	4,329,694
Accruals	689,429	735,593
Other payables	58,423	54,496
Total	2,138,438	5,119,783
Due between six months and a year	2020	2019
	£	£
Current borrowings	-	-
Due between a year and 5 years	7,479,422	6,895,000
Non-current borrowings		

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31. Summary of financial assets and liabilities by category

Fair values of financial assets and liabilities

There are no material differences between the fair values of any of the Company's financial assets or liabilities and their book values at the statement of financial position date. The carrying amounts of the financial assets and liabilities as recognised at the statement of financial position date of the years under review may also be categorised as follows:

	2020 £	2019 £
Financial assets measured at amortised cost:		
Cash and cash equivalents	1,490,955	5,617,457
Trade and other receivables, excluding taxation receivables and prepayments	6,974,300	6,364,331
	<u>8,465,295</u>	<u>11,981,788</u>
Financial liabilities measured at amortised cost:		
Trade and other payables, excluding others taxes and social security costs	2,105,324	5,065,287
Borrowings	7,479,422	6,895,000
	<u>9,584,746</u>	<u>11,960,287</u>

32. Capital management policies and procedures

The primary objectives of the Company's capital management are to ensure that the Company maintains strong credit ratings, manages its cash flow and receivables and to maintain healthy capital ratios in order to support its business and to maximise shareholders' value.

The Company monitors capital on the basis of the carrying amount of equity less cash and cash equivalents as presented in the statement of financial position.

	2020 £	2019 £
Capital		
Total equity	2,966,784	7,020,689
Less cash and cash equivalents	(1,490,955)	(5,617,457)
	<u>1,475,829</u>	<u>1,402,323</u>
Overall financing		
Total equity	2,966,784	7,020,689
Plus borrowings	7,479,422	6,895,000
	<u>10,446,206</u>	<u>13,915,689</u>

Throughout the year, management constantly monitors levels of capital and at all times there were sufficient funds to manage the business.

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33. Post balance sheet events

The outbreak of the global coronavirus pandemic is continuing to impact the business balance sheet. The Directors have considered, and continue to do so, the impact of the virus on the business and have included details in the directors' report. There were no adjustments prior to the year- end and it is too early for directors to quantify the potential financial impact on the Company.

In accordance with Note 26 Share Based Payments the Company has granted a number of options to employees at an average weighted exercise price of £0.14p. Since the original option was granted, the Company has undertaken a number of changes in order for the Company to be in a strong position as it looks towards the future.

In May 2020, the Company offered a surrender & regrant to all employees, which resulted in 3.4M options being surrendered and reissued at the lower exercise price as approved.