

Company Registration No. 04616229 (England and Wales)

CIPHR LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2019

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CIPHR LIMITED

COMPANY INFORMATION

Directors	C G Berry A J Oehlers G N Scott
Company number	04616229
Registered office	Abbey House 28-30 Chapel Street Marlow Buckinghamshire SL7 1DD
Auditor	RSM UK Audit LLP Chartered Accountants Davidson House Forbury Square Reading Berkshire RG1 3EU

CIPHR LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present the strategic report for the year ended 31 December 2019.

Principal activities

The principal activity of the Company is the design, sale and provision of business critical Human Capital Management (HCM) software and technology platforms and related services for organisations with over 100 employees. The Company's software is predominantly delivered as Software-as-a-Service (SaaS).

CIPHR Limited is a member of the CIPHR Group (the "Group") which is headed by CIPHR Group Limited. The Group is managed on a consolidated basis and the Strategic Review pertains to the whole Group.

Business review

Revenue for the year ended 31 December 2019 was up 23% to £11.4m and Trading EBITDA (as defined in note 1 below) was up 44% to £3.3m.

Annualised recurring revenue was £12m at the end of 2019.

The Group operates in the UK HCM market which is estimated to be worth £750m pa with expected growth rate of 6% pa.

The Group's strategy is to deliver highly configurable software with best in class professional support to enable organisations to better manage their employees through the employee life cycle from talent attraction to exit and beyond (e.g. Pension Payroll, Alumni). The Group focuses on prospective customers based in the UK with over 100 employees and has over 550 customers across all sectors, including major brands.

The Group continues to invest heavily in all aspects of the business to ensure future growth.

Key performance indicators

The key performance indicators are monitored at Group level and during the period were as follows:

Year ended 31 December	2017	2018	2019
Total revenue	£7.5m	£9.3m	£11.4m
Revenue growth	15%	25%	23%
Organic SaaS subscription growth	25%	24%	25%
Recurring revenue as % of total revenue	84%	81%	82%
SaaS & Services as % of total revenue	93%	96%	97%
Trading EBITDA (note 1)	£1.5m	£2.3m	£3.3m
Trading EBITDA margin	20%	25%	29%
Cash generated from operations	£1.6m	£2.8m	£4.1m
OCF as % of unadjusted EBITDA	144%	137%	148%
FCF	£0.4m	£1.4m	£3.0m

Note 1: Trading EBITDA is defined as Earnings Before Interest, Tax, Depreciation and Amortisation excluding holding company costs and exceptional items. This measure reflects the underlying operating profitability.

CIPHR LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Principal risks and uncertainties

The Company's business does not expose it to any risks other than those associated with normal commercial trading. The list below does not contain all risks that the Company faces and it does not list the risks in any order of priority.

Competition

The market is highly competitive. The Company specialises only in HCM software and services, providing "best of breed" business critical solutions for managing people, whereas many competitors do not have the same focus as they are part of a wider group with multiple product offerings.

IT and data security

The service to CIPHR's customers is heavily dependent upon the group's IT systems. The Company has appropriate controls in place to mitigate the risk of systems failure including back up procedures, disaster recovery plans, software virus protection and network security controls. The Company has ISO27001, ISO9001 and ISO14001 accreditations across the Group and its' providers of data centre infrastructure.

Upon the announcement of the UK Government COVID-19 mitigation measures the Company deployed its Business Continuity Plan and successfully transitioned the entire company business to home and remote working. This has been very successful and allows the business to deliver all its products, services, customer support and on going software development as business as usual albeit without the use of the Company's office premises.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. Most cash is collected annually in advance with the team of credit controllers chasing delinquent payments promptly.

The nature of the software functionality and services provided to Company customers is of an essential nature in that it manages the critical elements of people information management and payroll processing without which customers cannot perform essential functions hence the risk around non payment by customers is significantly reduced.

Interest rate risk

The Company mitigates interest rate risk ensuring the majority of debt has fixed interest rates.

Liquidity risk

The Company maintains sufficient cash for ongoing operations and future developments. The business is highly cash generative and has an undrawn overdraft facility provided by HSBC of £0.5m.

Covid-19 risk

COVID-19 represents a risk to the business and its employees, however the Company is mitigating this risk. The Company has followed government guidance implemented its Business Continuity Plans in March 2020.

The Company is delivering all products and services remotely and the business functioning very effectively without the need for access to its' office premises that have been closed since 27 March 2020. The impact on employees and customers is being monitored regularly and the Company will continue to follow relevant government guidance.

Post Balance Sheet event: Covid-19

The impact of Covid-19 occurred after the year end and as a post balance sheet event does not have an effect on these financial statements.

Financial strength

As at 31 December 2019, the Company had cash of £2.6m. At 15 May 2020, the Company's cash had increased to £3.7m through cashflow from operating activities. In addition, the Company has an overdraft of £0.5m.

CIPHR LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

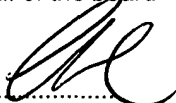
Future outlook

The group performed well in 2019 and into the start of 2020. Since March 2020, Covid-19 has resulted in reduced new business sales compared with 2019 as prospects are understandably pre-occupied with mitigating the impact of Covid-19 on their own business. Annualised recurring revenue of £12m at the end of 2019 comfortably exceeds the cost base. Furthermore, customers continue to sign new contracts for additional functionality and new multi-year contracts.

The directors are confident that the Group has the necessary resilience to weather any difficulties caused by Covid-19 and expect the impact of greater remote working will lead to increased demand for the Group's software and services.

In addition, the Group plans to continue making acquisitions that will scale the business and provide its customers with deeper functionality.

On behalf of the board



.....
C G Berry
Director

Date: 29 May 2020
.....

CIPHR LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

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

Principal activities

The principal activity of the company is that of developing and delivery of Human Resource management software and consultancy involving the design, development, implementation, integration, customisation and training in the use of human resource orientated computer systems both delivered as a service over the internet (Saas/Cloud) and for on premise use.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

C G Berry

A J Oehlers

G N Scott

A Carwardine

(Appointed 28 January 2019 and resigned 15 April 2019)

Results and dividends

The results for the year are set out on page 8.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

Qualifying third party indemnity provisions

The company has made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

Research and development

During the year the group incurred £411,000 (2018: £271,000) of costs relating to research and development.

Auditor

The auditor, RSM UK Audit LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Strategic report

The directors have chosen in accordance with section 414C(11) of the Companies Act 2006 to include in the Strategic Report matters otherwise required to be disclosed in the Directors' Report as the directors consider these are of strategic importance to the group.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, each director has taken all the necessary steps that they ought to have taken as a director in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board



C G Berry

Director

Date: 29 May 2020

CIPHR LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors are responsible for preparing the Strategic Report and the 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 accounting estimates that are reasonable and prudent;
- 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CIPHR LIMITED

Opinion

We have audited the financial statements of CIPHR Limited (the 'company') for the year ended 31 December 2019 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity 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 United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. 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 have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CIPHR LIMITED (CONTINUED)

Matters on which we are required to report by exception

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 and the directors' report.

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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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.

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: <http://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 member 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 member 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 member for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

Neil Mellor (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP, Statutory Auditor

Chartered Accountants

Davidson House

Forbury Square

Reading

Berkshire, RG1 3EU.

29 May 2020

CIPHR LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

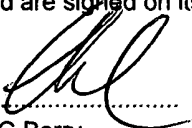
	Notes	2019 £'000	2018 £'000
Turnover	3	11,220	9,258
Cost of sales		(505)	(421)
Gross profit		10,715	8,837
Administrative expenses		(10,169)	(9,015)
Other operating income	6	549	913
EBITDA*		2,484	2,181
Amortisation		(1,217)	(1,286)
Depreciation		(172)	(160)
Operating profit	7	1,095	735
Interest receivable and similar income	9	8	=
Interest payable and similar expenses	10	(190)	(223)
Profit before taxation		913	512
Tax on profit	11	(69)	224
Profit for the financial year		844	736

*Earnings before interest, tax, depreciation and amortisation

CIPHR LIMITED**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

	Notes	2019 £'000	£'000	2018 £'000	£'000
Fixed assets					
Goodwill	12		1,495		1,720
Other intangible assets	12		2,017		2,069
Total intangible assets			3,512		3,789
Tangible assets	13		368		366
			3,880		4,155
Current assets					
Debtors	16	9,515		6,356	
Cash at bank and in hand		1,070		1,923	
		10,585		8,279	
Creditors: amounts falling due within one year	17	(8,163)		(6,797)	
Net current assets			2,422		1,482
Total assets less current liabilities			6,302		5,637
Creditors: amounts falling due after more than one year	18		(4,007)		(4,193)
Provisions for liabilities	19		(75)		(68)
Net assets			2,220		1,376
Capital and reserves					
Called up share capital	22		618		618
Profit and loss reserves	23		1,602		758
Total equity			2,220		1,376

The financial statements were approved by the board of directors and authorised for issue on 29 May 2020 and are signed on its behalf by:


.....
C G Berry
Director

CIPHR LIMITED

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

	Share capital	Profit and loss reserves	Total
	£'000	£'000	£'000
Balance at 1 January 2018	618	22	640
Year ended 31 December 2018:			
Profit and total comprehensive income for the year	-	736	736
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2018	618	758	1,376
Year ended 31 December 2019:			
Profit and total comprehensive income for the year	-	844	844
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2019	<u>618</u>	<u>1,602</u>	<u>2,220</u>

CIPHR LIMITED

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

1 Accounting policies

Company information

CIPHR Limited is a private company limited by shares and is registered and incorporated in England and Wales. The registered office is Abbey House, 28-30 Chapel Street, Marlow, Buckinghamshire, SL7 1DD.

The company's principal activities and nature of its operations are disclosed in the Directors' Report.

Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements have been prepared with the adoption of the FRS 102 Triennial Review 2017 amendments in full. This is the first set of financial statements where the Triennial Review amendments have been adopted. There have been no changes to amounts presented in respect of transactions or balances in any of the main statements as a result of adoption of the changes, but certain disclosures have been updated in line with the new requirements.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £1,000.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 7 'Statement of Cash Flows' – Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

The company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated accounts. The financial statements present information about the company as an individual entity and not about its group.

CIPHR Limited is a wholly owned subsidiary of CIPHR Group Limited and the results of CIPHR Limited are included in the consolidated financial statements of CIPHR Group Limited which are available from Abbey House 28-30 Chapel Street, Marlow, Buckinghamshire, SL7 1DD.

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies (Continued)

Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

The Company's software and services are mission critical to its customers and the Company has a robust business model with a high level of contracted recurring revenue from a well-diversified customer base. Customers typically contract for an initial term of 3-5 years that automatically renew unless terminated. Customers typically pay annually in advance. The largest customer is less than 3% of recurring revenue.

The directors have taken measures to counter the potential impact of COVID-19 on the Company's operations and the resultant impact on its financial position. Whilst the risks cannot be completely mitigated and therefore some level of future uncertainty remains, the directors have reviewed detailed forecasts and consider the Company is able to continue meeting its liabilities as they fall due in the foreseeable future.

Turnover

Turnover is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes.

Revenue from the sale of SaaS and Services contracts is in two components: (i) subscriptions, which are recognised on a straight line basis over the period of the subscription and (ii) the provision of professional services, which are recognised by reference to the stage of completion. The stage of completion is calculated by comparing costs incurred, mainly in relation to contractual hourly staff rates and materials, as a proportion of total costs.

Revenue from the sale of Support contracts is recognised on a straight line basis over the period of the support contract.

Other revenues are recognised either over the period of the subscription or in the month in which the service is provided.

Research and development expenditure

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

Intangible fixed assets - goodwill

Goodwill represents the excess of the cost of acquisition of a business over the fair value of net assets acquired. It is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is considered to have a finite useful life and is amortised on a straight line basis over its expected life, which is ten years.

Goodwill is tested for impairment at least annually, or more frequently when there is an indication of impairment.

Intangible fixed assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date if the fair value can be measured reliably.

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies (Continued)

All intangible assets are considered to have a finite useful life. Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Software development costs	33% straight line from the product release date
Customer relationships	10% straight line from acquisition

Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Fixtures and fittings	20-25% straight line or over the life of the lease if shorter
Computer equipment	33% straight line
Motor vehicles	25% straight line

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

Fixed asset investments

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Cash and cash equivalents

Cash and cash equivalents are basic financial instruments and include cash in hand.

Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, 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 to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include trade and other debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the financial asset is measured at the present value of the future receipts discounted at a market rate of interest.

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies (Continued)

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including trade and other creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the company are recorded at the fair value of proceeds received, net of direct issue costs.

Taxation

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current and deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on the net basis or to realise the asset and settle the liability simultaneously.

Current tax is based on taxable profit for the year. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is recognised on differences between the value of assets (other than goodwill) and liabilities recognised in a business combination and the amounts that can be deducted or assessed for tax. The deferred tax recognised is adjusted against goodwill.

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies (Continued)

Provisions

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Retirement benefits

For defined contribution schemes the amount charged to profit or loss is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

Leases

Rentals payable under operating leases, including any lease incentives received, are charged as an expense on a straight line basis over the term of the relevant lease.

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount 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 where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical judgements

The items in the financial statements where significant judgements and estimates have been made include:

Goodwill

Goodwill and intangible assets on business combinations. The company establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units to which goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses. Determining whether goodwill and intangible assets are impaired requires an estimation of the recoverable value, which represents the higher of fair value and the value in use, of the relevant cash generating unit. Management has not identified any indicators of impairment to goodwill and intangible assets.

Other intangible assets

Carrying value of software development intangible assets. Determining the amount to be capitalised requires each project to be clearly defined and the relevant proportions of each individual's time to be recorded on a monthly basis. The useful economic life of software projects cannot be known in advance and the directors estimate this using a basis consistent with the estimation of the useful economic life of intangible assets acquired on a business combination as described above. Determining whether software development intangible assets are impaired requires an estimation of the recoverable value, which represents the higher of fair value and value in use. Management has not identified any indicators of impairment to the software development intangible assets.

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

3 Turnover and other revenue

An analysis of the company's turnover is as follows:

	2019	2018
	£'000	£'000
Turnover analysed by class of business		
Saas, services and other	10,963	8,846
Maintenance and support	257	412
	<u>11,220</u>	<u>9,258</u>
	<u><u>11,220</u></u>	<u><u>9,258</u></u>

All revenue was generated within the UK.

4 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2019	2018
	Number	Number
Sales & marketing	41	38
Delivery & support	47	39
IT / research & development	29	29
General & administrative	10	10
	<u>127</u>	<u>116</u>
	<u><u>127</u></u>	<u><u>116</u></u>

Their aggregate remuneration comprised:

	2019	2018
	£'000	£'000
Wages and salaries	6,095	5,374
Social security costs	629	548
Pension costs	274	257
	<u>6,998</u>	<u>6,179</u>
	<u><u>6,998</u></u>	<u><u>6,179</u></u>

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

5 Directors' remuneration	2019	2018
	£'000	£'000
Remuneration for qualifying services	531	449
Company pension contributions to defined contribution schemes	37	36
	<u>568</u>	<u>485</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 3 (2018 - 3).

Remuneration disclosed above include the following amounts paid to the highest paid director:

	2019	2018
	£'000	£'000
Remuneration for qualifying services	161	142
Company pension contributions to defined contribution schemes	3	12
	<u>164</u>	<u>154</u>

6 Other operating income	2019	2018
	£'000	£'000
Transfer pricing revenue	549	535
Waiver of intercompany balances	-	378
	<u>549</u>	<u>913</u>

7 Operating profit	2019	2018
	£'000	£'000
Operating profit for the year is stated after charging:		
Research and development costs	411	271
Depreciation of owned tangible fixed assets	172	160
Amortisation of intangible assets	1,217	1,286
Operating lease charges	201	187
Exceptional items	392	153
	<u>2,403</u>	<u>2,057</u>

Exceptional items in the current and comparative year consist of non recurring costs, such as staff termination and office and data centre closure.

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

8 Auditor's remuneration	2019	2018
	£'000	£'000
Fees payable to the company's auditor and its associates:		
For audit services		
Audit of the financial statements of the company	10	10
	<u> </u>	<u> </u>
9 Interest receivable and similar income	2019	2018
	£'000	£'000
Interest income		
Interest on bank deposits	8	-
	<u> </u>	<u> </u>
10 Interest payable and similar expenses	2019	2018
	£'000	£'000
Loan arrangement fee amortisation	31	31
Interest on bank loans	159	192
	<u> </u>	<u> </u>
	190	223
	<u> </u>	<u> </u>
11 Taxation	2019	2018
	£'000	£'000
Deferred tax		
Origination and reversal of timing differences	69	(209)
Adjustment in respect of prior periods	-	(15)
	<u> </u>	<u> </u>
Total deferred tax	69	(224)
	<u> </u>	<u> </u>

The Finance Act 2016 was enacted so as to reduce the corporation tax rate from 19% to 17% with effect from 1 April 2020; however, in March 2020 the Chancellor announced that tax rate would remain at 19%. These rates have been used to measure deferred tax assets and liabilities, where applicable.

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

11 Taxation (Continued)

The total tax charge/(credit) for the year included in the income statement can be reconciled to the profit before tax multiplied by the standard rate of tax as follows:

	2019 £'000	2018 £'000
Profit before taxation	913	512
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	173	97
Tax effect of expenses that are not deductible in determining taxable profit	92	(16)
Tax effect of income not taxable in determining taxable profit	-	(72)
Change in unrecognised deferred tax assets	16	-
Adjustments in respect of prior years	-	(15)
Effect of change in corporation tax rate	(6)	25
Additional deduction for R&D expenditure	(206)	(243)
Taxation charge/(credit) for the year	69	(224)

12 Intangible fixed assets

	Goodwill £'000	Software development costs £'000	Customer relationships £'000	Total £'000
Cost				
At 1 January 2019	2,095	9,680	540	12,315
Additions - internally developed	-	834	-	834
Additions - separately acquired	-	106	-	106
At 31 December 2019	2,095	10,620	540	13,255
Amortisation and impairment				
At 1 January 2019	375	7,989	162	8,526
Amortisation charged for the year	225	938	54	1,217
At 31 December 2019	600	8,927	216	9,743
Carrying amount				
At 31 December 2019	1,495	1,693	324	3,512
At 31 December 2018	1,720	1,691	378	3,789

Included within the cost of software development costs is an amount of £410,220 (2018: £391,000) relating to assets in the course of construction and as such do not incur any amortisation.

Amortisation is included within administrative expenses.

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

13 Tangible fixed assets

	Fixtures and fittings £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2019	627	638	7	1,272
Additions	8	166	-	174
At 31 December 2019	635	804	7	1,446
Depreciation and impairment				
At 1 January 2019	503	397	6	906
Depreciation charged in the year	45	126	1	172
At 31 December 2019	548	523	7	1,078
Carrying amount				
At 31 December 2019	87	281	-	368
At 31 December 2018	124	241	1	366

14 Fixed asset investments

		2019 £'000	2018 £'000
Investments in subsidiaries	15	-	-

15 Subsidiaries

Details of the company's subsidiaries at 31 December 2019 are as follows:

Name of undertaking	Registered office key	Nature of business	Class of shares held	% Held	
				Direct	Indirect
Computers In Personnel Limited	a)	Dormant	Ordinary	100.00	-

Registered Office address:

- a) Abbey House, 28-30 Chapel Street, Marlow, Buckinghamshire, SL7 1DD.

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

16 Debtors	2019	2018
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	1,935	1,403
Amounts owed by group undertakings	6,955	4,237
Other debtors	65	91
Prepayments and accrued income	264	260
	<u>9,219</u>	<u>5,991</u>
Deferred tax asset (note 20)	296	365
	<u>9,515</u>	<u>6,356</u>
	<u><u>9,515</u></u>	<u><u>6,356</u></u>
17 Creditors: amounts falling due within one year	2019	2018
	£'000	£'000
Bank loans and overdrafts	260	400
Trade creditors	62	57
Amounts due to group undertakings	100	-
Other taxation and social security	796	682
Deferred income	6,676	5,308
Accruals	269	350
	<u>8,163</u>	<u>6,797</u>
	<u><u>8,163</u></u>	<u><u>6,797</u></u>
18 Creditors: amounts falling due after more than one year	2019	2018
	£'000	£'000
Bank loans	2,983	3,200
Unamortised arrangement fee	(96)	(127)
Other borrowings	1,120	1,120
	<u>4,007</u>	<u>4,193</u>
	<u><u>4,007</u></u>	<u><u>4,193</u></u>

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

18 Creditors: amounts falling due after more than one year (Continued)

Bank loans are provided by HSBC, interest is payable quarterly at a rate of LIBOR plus 3.0% to 3.5% and expire between December 2024 and December 2025.

Preference shares cumulate a dividend of 7% per annum and are redeemable at par on winding up of the company in preference to ordinary shareholders

In addition the company has an undrawn overdraft facility of £0.5m.

The long-term loans are secured by fixed charges and floating charges on all assets of the company.

Amounts included above which fall due after five years are as follows:

Payable other than by instalments	3,120	1,120
	<u> </u>	<u> </u>

19 Provisions for liabilities

	2019 £'000	2018 £'000
Dilapidation provision	75	68
	<u> </u>	<u> </u>

Movements on provisions:

	Dilapidation provision £'000
At 1 January 2019	68
Additional provisions in the year	12
Utilisation of provision	(5)
	<u> </u>
At 31 December 2019	75
	<u> </u>

20 Deferred taxation

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (before offset) for financial reporting purposes:

	Liabilities 2019 £'000	Liabilities 2018 £'000	Assets 2019 £'000	Assets 2018 £'000
Balances:				
Accelerated capital allowances	301	289	-	-
Tax losses	-	-	597	654
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	301	289	597	654
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

20 Deferred taxation (Continued)

	2019 £'000
Movements in the year:	
Liability/(Asset) at 1 January 2019	(365)
Charge to profit or loss	69
	<u> </u>
Liability/(Asset) at 31 December 2019	<u>(296)</u>

The deferred tax assets and liabilities set out above are expected to reverse within 12 months and relate to accelerated capital allowances and tax losses that are expected to mature within the same period.

21 Retirement benefit schemes

	2019 £'000	2018 £'000
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	274	257
	<u> </u>	<u> </u>

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

22 Share capital

	2019 £'000	2018 £'000
Ordinary share capital Issued and fully paid		
617,700 Ordinary shares of £1 each	618	618
	<u> </u>	<u> </u>
Preference share capital classified as debt Issued and fully paid		
1,050,000 7% A Preference shares of £1 each	1,050	1,050
70,000 7% B Preference shares of £1 each	70	70
	<u> </u>	<u> </u>
	<u>1,120</u>	<u>1,120</u>

The holders of Ordinary shares are entitled to vote at shareholders meetings and the right to dividends as they arise.

Additionally the company has in issue 1,120,000 preference shares of £1 each, classified as liabilities. These shares do not carry voting rights

23 Reserves

Profit and loss reserves

Cumulative profit and loss net of distributions to owners.

CIPHR LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

24 Financial commitments, guarantees and contingent liabilities

By way of a composite guarantee dated 10 December 2017, CIPHR Group Limited and all subsidiary undertakings (including CIPHR Limited) have provided an intercreditor guarantee in respect of all borrowing undertaken by the group with HSBC Bank Plc. The borrowings at 31 December 2019 amounted to £8.1m (2018: £3.6m).

25 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2019 £'000	2018 £'000
Within one year	207	220
Between one and five years	671	548
In over five years	-	28
	<u>878</u>	<u>796</u>

26 Capital commitments

Amounts contracted for but not provided in the financial statements:

	2019 £'000	2018 £'000
Acquisition of tangible fixed assets	-	152
	<u>-</u>	<u>152</u>

27 Events after the reporting date

Covid-19 is considered to be a non-adjusting post statement of financial position event and no adjustment is made in the financial statements as a result.

28 Ultimate controlling party

The immediate and ultimate parent company, CIPHR Group Limited, is the smallest and largest company which produces consolidated accounts which include CIPHR Limited.

Copies of the accounts can be obtained from its registered office of Abbey House, 28-30 Chapel Street, Marlow, Buckinghamshire, SL7 1DD.