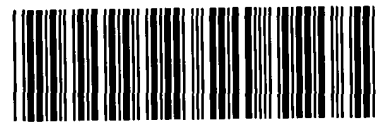


ANNUAL REPORT AND FINANCIAL STATEMENTS

2019

FOR THE YEAR ENDED 31 DECEMBER 2019

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AZUR GROUP HOLDINGS LIMITED

Registered number: 09938215

AZUR GROUP HOLDINGS LIMITED

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AZUR GROUP HOLDINGS LIMITED

COMPANY INFORMATION

Directors

Ms JH Arthur
Mr CJ Blackburn
Mr AL Brooks
Mr GA Elliott
Mr DQ Henriques
Mr RP Little
Mr I Pettifor
Mr IT Robinson
Mr BD Rugge-Price
Ms KV Wells

Company Secretary

Vistra Company Secretaries Limited

Company Number

09938215

Business Address

Linen Court
10 East Road
London
N1 6AD

Registered Address

First Floor
Templeback
10 Temple Back
Bristol
England
BS1 6FL

Bankers

Lloyds Bank Plc
25 Gresham Street
London
EC2V 7HN

Independent Auditor

PKF Littlejohn LLP
Statutory Auditor
15 Westferry Circus
Canary Wharf
London
E14 4HD

AZUR GROUP HOLDINGS LIMITED

STRATEGIC REPORT

The Directors present their Strategic Report on the Group for the year ended 31 December 2019. The Strategic Report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Azur Group Holdings Limited (the "Company") and its subsidiary undertakings (together the "Group") when viewed as a whole.

Report of the business

Review of the business

As an InsurTech group, Azur provides insurance intermediation and technology services to the insurance industry.

In addition to Azur Group Holdings Limited, the Group comprises Azuru Services Limited, the Group service company that provides a centralised infrastructure of management and administrative services, and its fellow subsidiary company Aztech Advantage Limited which provides technology solutions to the insurance industry, Broker iQ Limited and CyberGard Limited, two dormant name reservation companies. The Group also includes Azur Insurance Holdings Limited the holding company for the Financial Conduct Authority authorised and regulated insurance intermediary, Azur Underwriting Limited, and Azur UW Finance (Ireland) Limited.

The Directors continue to closely monitor BREXIT developments as the Group's insurance intermediary Azur Underwriting Limited relies on current EU freedom of service provisions to distribute insurance products and provide claims handling services to insured customers across Europe. The Group incorporated an Irish subsidiary, Azur UW Finance (Ireland) Limited in January 2019 and submitted an application to the Central Bank of Ireland ("CBI") on 13 February 2019 for approval as a Retail Intermediary under the European Union (Insurance Distribution) Regulations 2018. On 18 October 2019 the Retail Intermediary application of Azur UW Finance (Ireland) Limited was granted "minded to approve" status by the CBI subject to certain conditions being met. Following the extension of the BREXIT deadline to 31 December 2020, the Group agreed with the CBI on 21 January 2020 to withdraw its Retail Intermediary application and resubmit it in the second half of 2020.

In 2019 the Group's insurance intermediary Azur Underwriting Limited continued to actively grow its insurance intermediation platform through the expansion of its distribution channels together with further developing its product offerings in conjunction with the Group's technology services company, Aztech Advantage Limited ("Aztech").

Aztech Advantage Limited ("Aztech") became revenue generating in 2018 following the design, build and operation of a commercial underwriting platform for the US admitted lines market. In 2019 Aztech successfully delivered further growth with a large-scale development project with another US-based insurer. Aztech also launched a platform to administer new business home insurance policies for the emerging wealth customer segment and developed an innovative cyber insurance product for company employees.

On 23 October 2019 the Group's shareholders approved a £5.25 million funding round, comprising a £2.75 million equity raise, via a rights issue, and a £2.5 million non-amortising 3-year term loan. The equity raise was successfully concluded in March 2020, following receipt by AIG Property Casualty International, LLC ("AIG") of approval from the Financial Conduct Authority to return to being a 20% controller, with final equity subscriptions of £2.82 million. The debt was fully drawn down on 23 December 2019.

AZUR GROUP HOLDINGS LIMITED

STRATEGIC REPORT

Capital structure

It is the Group's policy to maintain a strong capital base, expanding it as appropriate to support projected growth, and to utilise capital efficiently.

In determining appropriate levels of capital, the Directors are conscious of the need to maintain a prudent relationship between the underlying risks of the business and shareholder return, whilst at the same time satisfying financial covenants in bank credit facilities, as and when the Group sources such finance. The pre-breakeven status of the Group means that it is at present heavily reliant on existing shareholder support.

The Group currently finances its operations from the following sources:

- a) Equity; and
- b) Shareholder debt.

The following tables show the capitalisation and indebtedness of the Group at the year-end:

	31 December 2019 £'000
Capitalisation and indebtedness	
Secured	3,705
Unguaranteed/unsecured	-
Total current and non-current debt	3,705
Share capital, share premium and own share reserve	13,887
Other reserves	1,750
Retained earnings	(13,871)
Shareholder's equity	1,766
Net indebtedness / resources	
Cash	3,275
Total liquidity	3,275
Current bank debt	-
Shareholder loans	-
Other current financial debt ¹	(328)
Current financial indebtedness	(328)
Net current financial liquidity	2,947
Shareholder loans	(3,705)
Non-current financial indebtedness	(3,705)
Net financial indebtedness	(758)

Notes

(1) The Group has current indirect indebtedness in the form of trade finance and lease liabilities as at 31 December 2019

AZUR GROUP HOLDINGS LIMITED

STRATEGIC REPORT

Key performance indicators

As a developing Group, having sufficient cash resources to satisfy the Group's financial obligations as and when they fall due is of paramount importance. Thereafter, the Directors are focused on building a sustainable business i.e. one that deploys a conduct-rich operating framework to fulfil the stated strategy of delivering an enhanced User Experience for insured customers, brokers and insurers whilst satisfying the needs of shareholders, employees and supplier partners.

Commensurate with the Group's objective to provide its shareholders with sustainable relatively low-risk capital growth whilst maintaining or enhancing customer outcomes, the Directors target the realisation of long-term efficiencies through the deployment of technology. The Directors believe that average headcount and revenue per employee provide insight into the operating efficiency of the Group.

The Directors believe that the number and nature of complaints, both from brokers and insured customers, is a basic indicator of the adequacy of customer outcomes.

The Group employs an array of other key performance indicators. However, in the opinion of the Directors the disclosure of competitor-sensitive information regarding, for example, policy retention rates, average commissions, gross loss ratios, claims declined ratios and etc. is likely to be prejudicial to the interests of the Group. Accordingly, the Directors limit disclosure of key performance indicators to the following:

	2019	2018
Revenue (£'000's)	6,428	4,028
Loss before tax (£'000's)	(5,134)	(4,227)
Revenue per employee (£'000's)	97	68
Number of complaints: ¹		
- Sales & service	12	7
- Claims handling	13	6
Average headcount	66	59
Cash and cash equivalents (£'000's)	3,275	2,451

Note 1 - The 25 complaints received, of which 11 were upheld, equate to 0.29% of written policies at the reporting date, 4 of the complaints, accounting for 33% of the year-on-year increase, were submitted by a serial complainant, none of which were upheld.

Principal risks and uncertainties

Risk management objectives and policies

The principal risks and uncertainties for the Group follow from the willingness of the insurance sector to distribute and underwrite the classes of risk in which the Group specialises and the competitiveness of the insurance brokers and insurers used compared with other products and markets available to insured customers.

The Board sets the overall risk appetite and philosophy of the Group. The Board, through its executives, establishes the parameters for risk appetite through setting strategic direction, contributing to and ultimately approving annual business plans for the Group, and regularly reviewing and monitoring performance in relation to risk through ad hoc reports.

AZUR GROUP HOLDINGS LIMITED

STRATEGIC REPORT

Principal risks and uncertainties (continued)

Risk appetite is defined in both qualitative and quantitative terms and is an expression of the maximum level of residual risk that the Group is prepared to accept in order to deliver its business objectives and is regularly assessed.

Through its activities the Group is exposed to a number of financial and non-financial risks. The Group does not use derivative financial instruments and has nominal exposure to such risks.

Financial risks

The principal financial risks that the Group seeks to manage are as follows:

Credit risk

Credit risk is the risk that the Group will incur losses as a result of the failure of insured customers, brokers, insurers and other counterparties to meet their obligations and the holdings of cash and cash equivalents.

Such losses are further minimised by performing a credit assessment on new insurers and insurance intermediaries at take-on as well as by actively monitoring aged receivables. In extremis, and with the insurer's agreement, policies of insurance can be cancelled ab initio and PaaS or SaaS services can be withdrawn for non-payment.

The Group limits the amount of deposits and cash and cash equivalents it holds at any one bank or financial institution to 15% of its aggregate deposits and cash and cash equivalents. In addition to performing a credit assessment on the opening of new bank accounts, cash management platforms are used to diversify cash holdings to ensure that as large a percentage as practicable of aggregate cash balances enjoy full Financial Services Compensation Scheme protection.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its cash obligations as they fall due.

The Group manages its liquidity risk by monitoring short-term and long-term cash flow forecasts which identify significant future cash flow requirements and inflows. The Company aims to mitigate liquidity risk by maintaining a mixture of short-term and long-term facilities to ensure that it has sufficient available funds to satisfy daily requirements.

Foreign exchange risk

Foreign exchange risk is the risk of adverse changes in currency exchange rates.

The Group, which has as its functional currency Pounds Sterling, is generally exposed to manageable levels of operational foreign exchange risk in that the Group's revenues, recharges and material expenditure are predominantly denominated in US Dollars and Pounds Sterling.

Interest rate risk

Interest rate risk is the risk of adverse changes (effectively increases) in market interest rates and with the cumulative redeemable preference shares on a fixed-interest basis arises primarily from the £2.5 million 3-year term loan and could potentially arise from the use of bank overdrafts.

The Group manages its exposure to this risk by regularly monitoring interest rates (which are currently at historic lows) and avoiding the use of bank overdrafts.

AZUR GROUP HOLDINGS LIMITED

STRATEGIC REPORT

Principal risks and uncertainties (continued)

Non-financial risks

The principal non-financial risks that the Group seeks to manage are as follows:

Reputational risk

Reputational risk is the risk that the Group or a Group company's ability to conduct business will be damaged as a result of its reputation being tarnished, including as a result of regulatory censure. The Group has policies and procedures in place to manage this risk to the extent possible which include, inter alia, procedures for the hiring and screening of employees, the taking-on of new business, the countering of fraud and corruption and the conducting of business in a client-centric and ethical manner.

The Directors recognise that the success of the Group within the niche sectors it serves is heavily dependent upon demonstrating and maintaining consistently high ethical standards in all business dealings and delivering a high-quality service to clients and insured customers. For this reason, the Directors have sought to embed conduct at the heart of the business.

Operational risk

Operational risk is the risk of loss of earnings and/or value resulting from inadequate or failed internal processes, people and systems or from external events. It is inherent within all of the financial risk categories above. Operational risks encompass customer treatment, product development risk, processes and systems risk, change risk, people risk, theft, fraud, legal and regulatory risks and corporate governance risk.

The Group has a business continuity plan in place which is tested and enhanced on an ad hoc basis, together with policies to cover the risks of financial crime, money laundering and whistle-blowing. As a digitally-enabled business, the Group supports remote, cloud-based, working practices as part of its standard operating model.

Future developments

The Directors expect the general level of activity to increase in the forthcoming year as the Group looks to expand its insurance intermediation platform to include a broader array of products and markets.

The Group adopted a remote-first working policy a week before the UK government mandated COVID-19 lock down on 23 March 2020. As a digitally-enabled business, the Group benefited from the investment made in its systems architecture and working practices and was fortunate to be able to move relatively seamlessly to remote working, ensuring the smooth continuation of services to end-insured customers, brokers and insurers (in both the US and the UK).

Whilst an initial decline in new intermediated business submissions was experienced, as brokers adjusted to remote working, this reversed quicker than anticipated at the time such that business was back to pre-COVID-19 forecast levels within approximately 6 weeks of lockdown.

AZUR GROUP HOLDINGS LIMITED

STRATEGIC REPORT

Future developments (continued)

As a result of the economic impact of COVID-19, the Group's technology company, Aztech Advantage Limited ("Aztech") is forecasting a 40% shortfall in budgeted revenues from its US customers in 2020 which, nevertheless, are projected to be 35% higher than in 2019. As an immediate response to this reduction in budgeted US revenues, Aztech has deferred planned recruitment and taken the opportunity to focus its development efforts on the enhancement and extension of the broker hub and underwriting and policy administration platform utilised by the Group's insurance intermediary Azur Underwriting Limited.

With the depth and duration of the COVID 19 economic disruption unknown, consistent with the philosophy of "hope for the best, plan for the worst", the Directors implemented a series of cost-cutting initiatives in April 2020 to increase the business's resilience including the elimination of all discretionary expenditure, 12-month pay cuts for Executive Committee members and downsizing the office. The Directors have developed a suite of financial and non-financial triggers, monitored and reassessed on a daily basis, which they believe enable them to closely monitor the economic situation and respond quickly to changed circumstances.

The Directors continue to closely monitor BREXIT developments as the Group relies on current EU freedom of service provisions to distribute insurance products and provide claims handling services to insured customers across Europe. Following the extension of the BREXIT deadline to 31 December 2020, the Azur Group agreed with the Central Bank of Ireland on 21 January 2020 to withdraw its application for approval as a Retail Intermediary under the European Union (Insurance Distribution) Regulations 2018 and to resubmit it in the second half of 2020.

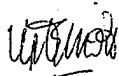
Details of significant events since the balance sheet date are contained in Note 33 to the financial statements.

Going concern

The Company completed a £5.25 million funding round in March 2020. Based on the assessment that COVID-19 will not have a significant adverse impact on the business and the additional operating resilience established, having made appropriate enquiries, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the summary of significant accounting policies in Note 2 to the financial statements.

By Order of the Board



Graham Elliott
Director
28 July 2020

AZUR GROUP HOLDINGS LIMITED

DIRECTORS' REPORT

The Directors present their report on the affairs of the Group, together with the audited financial statements for the year ended 31 December 2019.

General information

Azur Group Holdings Limited is a private company limited by shares, incorporated in the United Kingdom. The Company's registered address is First Floor, Templeback, 10 Temple Back, Bristol, England, BS1 6FL and its principal place of business is Linen Court, 10 East Road, London, N1 6AD.

There is no ultimate controlling party as the Company is owned by a number of corporate and private individual shareholders, none of whom have a controlling interest.

Future developments and events after the balance sheet date

Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic Report on pages 7 & 8 and form part of this report by cross-reference.

Dividends

The Directors do not propose the payment of a dividend for the year.

Research and development

The Group continues to focus on developing its Platform as a Service ("PaaS") product offering, with the release of its first digital insurance product, SMARTHome, occurring in early 2019, followed by the development of an innovative cyber insurance product for company employees. In addition, the further development of its end-to-end insurance intermediation platforms for new products and markets in both the UK and the US will continue in 2020 and beyond.

Political and charitable donations

During the year no political donations were made by the Group. Charitable donations amounted to £1,319 (2018: £2,086)

Disabled persons

It is the Group's policy to give full consideration to suitable applications for employment of disabled persons. Disabled employees are eligible to participate in all career development opportunities available to staff. Opportunities also exist for employees of the Group who become disabled to continue in their employment or to be retrained for other positions in the Group.

Employee involvement

It is an integral part of the Azur culture that employees adopt a shareholder mentality and an innovative mind-set and feel empowered to challenge existing preconceptions and practices.

The Group is, therefore, committed to involving all employees in the performance and development of the Group and its products and services. Its approach to employee development offers continual challenges in the job, learning opportunities and personal development.

The Group encourages all its employees to participate fully in the business through open dialogue. Employees receive news of the Group through senior management presentations, frequent email notices and postings on the Group's intranet. The Group maintains a strong communications network and employees are encouraged, through the AzOne staff and welfare committee and an open-door policy, to discuss with management matters of interest to the employee and subjects affecting day-to-day operations and the sustainability of the Group.

AZUR GROUP HOLDINGS LIMITED

DIRECTORS' REPORT

Directors

The Directors of the Company during the year ended 31 December 2019, together with their dates of appointment and/or resignation as applicable, were:

	<u>Date of appointment</u>	<u>Date of resignation</u>
Mr GA Elliott	6 January 2016	-
Mr CJ Blackburn	1 April 2016	-
Mr I Pettifor	1 April 2016	-
Ms KV Wells	24 September 2018	-
Ms JH Arthur (Non-Executive)	10 May 2016	-
Mr AL Brooks (Non-Executive)	10 May 2016	-
Mr DQ Henriques (Non-Executive) ¹	26 May 2017	-
Mr RP Little (Non-Executive)	24 September 2018	-
Mr BD Rugge-Price (Non-Executive)	24 September 2018	-
Mr IT Robinson (Non-Executive)	1 December 2018	-

¹ DQ Henriques became Executive Chairman on 1 March 2020

The Directors have no interests in the shares of any subsidiary undertaking of the Group. The interests of the Directors in the allotted share capital of the Company at the beginning and end of the financial period were as follows:

<u>Director</u>	<u>Class of share</u>	<u>Number of shares</u>	
		<u>1 January 2019</u>	<u>31 December 2019</u>
GA Elliott	Ordinary Shares of £0.001 each	1,052,995	1,052,995
CJ Blackburn	Ordinary Shares of £0.001 each	59,734	59,734
I Pettifor	Ordinary Shares of £0.001 each	57,545	57,545
RP Little	Ordinary Shares of £0.001 each	147,338	219,344

Directors' indemnity

The Company has provided qualifying third-party indemnities for the benefit of its Directors. These were provided during the period and remain in force at the date of this report.

Provision of information to auditor

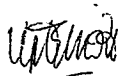
So far as each of the Directors is aware, at the time this report is approved:

- 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 to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

PKF Littlejohn LLP has signified its willingness to continue in office as auditor.

This report was approved by the Board on 28 July 2020 and signed on its behalf by



Graham Elliott
Director
28 July 2020

AZUR GROUP HOLDINGS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 Group and Parent Company financial statements in accordance with International Financial Reporting Standards ("IFRS") 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 of the Group and Parent Company and of the profit or loss of the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and 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 Group and 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 Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 the financial statements may differ from legislation in other jurisdictions.

AZUR GROUP HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

We have audited the financial statements of Azur Group Holdings Limited (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2019 which comprise the Group Statement of Comprehensive Income, the Group and Company Statements of Financial Position, the Group and Company Statements of Changes in Equity, the Group and Company Statements 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 ("IFRS") as adopted by the European Union and as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's and Parent Company's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 ("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 Group and Parent 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.

Emphasis of Matter

We draw attention to Note 2 "Going Concern" section of the financial statements, which describes the Directors' assessment of the impact of COVID-19 on the Group and Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

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 Group's or the Parent 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.

AZUR GROUP HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

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 Group and Parent Company 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.

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the Group and Parent Company 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 Group and Parent Company financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

AZUR GROUP HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

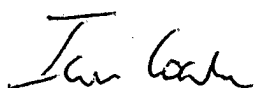
Auditor's responsibilities for the audit of the financial statements

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 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.



**Ian Cowan (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor**

15 Westferry Circus
Canary Wharf
London E14 4HD

31 July 2020

AZUR GROUP HOLDINGS LIMITED
GROUP STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Note	2019 £	2018 £
Loss from Operations			
Revenue	5	6,428,037	4,028,279
Gross Profit		6,428,037	4,028,279
Other income	6	793,580	396,723
Administrative expenses		(12,209,581)	(8,332,226)
Operating Loss	7	(4,987,964)	(3,907,224)
Finance costs	10	(146,021)	(320,036)
Loss on Ordinary Activities before Income Tax		(5,133,985)	(4,227,260)
Income tax credit	12	848,421	761,723
Loss on Ordinary Activities for the Period		(4,285,564)	(3,465,537)
Other Comprehensive Income for the Period, Net of Tax		-	-
Total Comprehensive Loss for the Period		£ (4,285,564)	£ (3,465,537)

The accounting policies and notes on pages 22 to 62 form part of these financial statements.

A Company Statement of Comprehensive Income is not presented in accordance with the exemption afforded by Section 408 of the Companies Act 2006.

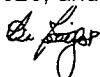
The loss for the Company for the year was £79,234 (2018: £475,283 profit).

AZUR GROUP HOLDINGS LIMITED
GROUP STATEMENT OF FINANCIAL POSITION
for the year ended 31 December 2019

	Note	2019 £	2018 £
Assets			
Non-current Assets			
Property, plant and equipment	13	91,528	41,603
Intangible assets	14	286,453	381,938
Other loans and receivables	25	229,500	150,000
Deferred tax	28	2,227,431	1,844,105
		2,834,912	2,417,646
Current Assets			
Trade and other receivables	16	2,698,679	1,754,897
Cash and cash equivalents	17	3,274,836	2,450,814
		5,973,515	4,205,711
Total Assets		£ 8,808,428	£ 6,623,357
Equity and Liabilities			
Equity Attributable to Shareholders			
Share capital	18	6,600	5,449
Share premium	18	14,113,724	12,385,201
Own share reserve	18	(233,490)	-
Other reserves	19	1,750,170	372,688
Retained earnings	20	(13,870,563)	(9,565,663)
Total Equity		1,766,441	3,197,675
Liabilities			
Non-current Liabilities			
Borrowings	22	3,704,585	1,500,000
Other financial liabilities	23	529,459	-
		4,234,044	1,500,000
Current Liabilities			
Trade and other payables	26	2,361,811	1,478,344
Lease liabilities	24	77,793	-
Borrowings	22	250,408	375,938
Provisions for other liabilities and charges	27	117,931	71,400
		2,807,943	1,925,682
Total Liabilities		7,041,987	3,425,682
Total Equity and Liabilities		£ 8,808,428	£ 6,623,357

The accounting policies and notes on pages 22 to 62 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 28 July 2020, and were signed on its behalf by:



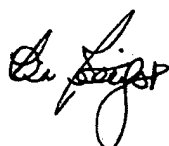
Ian Pettifor
Director
Company number 09938215

AZUR GROUP HOLDINGS LIMITED
COMPANY STATEMENT OF FINANCIAL POSITION
for the year ended 31 December 2019

	Note	2019 £	2018 £
Assets			
Non-current Assets			
Investments	11	2,601,800	600,377
Other loans and receivables	25	14,723,187	11,899,977
Deferred tax	28	1,725	1,725
		<u>17,326,712</u>	<u>12,502,079</u>
Current Assets			
Trade and other receivables	16	365,955	337,614
Other loans and receivables	25	166,737	226,768
Cash and cash equivalents	17	3,023,105	1,419,741
		<u>3,555,797</u>	<u>1,984,123</u>
Total Assets		<u>£ 20,882,509</u>	<u>£ 14,486,202</u>
Equity and Liabilities			
Equity Attributable to Shareholders			
Share capital	18	6,600	5,449
Share premium	18	14,113,724	12,385,201
Own share reserve	18	(233,490)	-
Other reserves	19	1,750,170	372,688
Retained earnings	20	97,921	177,155
Total Equity		<u>15,734,925</u>	<u>12,940,493</u>
Liabilities			
Non-current Liabilities			
Borrowings	22	3,704,585	1,500,000
Other financial liabilities	23	529,459	-
		<u>4,234,044</u>	<u>1,500,000</u>
Current Liabilities			
Trade and other payables	26	913,540	45,709
		<u>913,540</u>	<u>45,709</u>
Total Liabilities		<u>5,147,584</u>	<u>1,545,709</u>
Total Equity and Liabilities		<u>£ 20,882,509</u>	<u>£ 14,486,202</u>

The accounting policies and notes on pages 22 to 62 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 28 July 2020, and were signed on its behalf by:



Ian Pettifor
Director
Company number 09938215

AZUR GROUP HOLDINGS LIMITED
GROUP STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

Note	Attributable to Equity Shareholders of the Group					Total
	Share capital	Share premium	Own share reserve	Other reserves	Retained earnings	
	£	£	£	£	£	£
Balance as at 1 January 2019	5,449	12,385,201	-	372,688	(9,565,663)	3,197,675
Impact of change in accounting policy	2	-	-	-	(19,336)	(19,336)
Loss for the period	-	-	-	-	(4,285,564)	(4,285,564)
Other Comprehensive Income	-	-	-	-	-	-
Total Comprehensive Income	-	-	-	-	(4,304,900)	(4,304,900)
Transactions with Owners						
Proceeds from shares issued	18	1,151	1,478,523	(233,490)	-	1,246,184
Shares to be issued – employee share schemes	19	-	-	-	1,915,065	1,915,065
Redeemable preference share adjustment	-	-	250,000	-	-	250,000
Shares to be issued – warrant embedded in term loan	19	-	-	-	(525,107)	(525,107)
Shares to be issued – decrease in value of written options	19	-	-	-	(12,476)	(12,476)
Total Transactions with Owners Recognised Directly in Equity		1,151	1,728,523	(233,490)	1,377,482	2,873,666
Balance as at 31 December 2019		£ 6,600	£ 14,113,724	£ (233,490)	£ 1,750,170	£ (13,870,563)
						£ 1,766,441

Note	Attributable to Equity Shareholders of the Group					Total
	Share capital	Share premium	Own share reserve	Other reserves	Retained earnings	
	£	£	£	£	£	£
Balance as at 1 January 2018	2,535	553,115	-	426,874	(6,100,126)	(5,117,602)
Loss for the period	-	-	-	-	(3,465,537)	(3,465,537)
Other Comprehensive Income	-	-	-	-	-	-
Total Comprehensive Income	-	-	-	-	(3,465,537)	(3,465,537)
Transactions with Owners						
Proceeds from shares issued	2,914	11,832,086	-	-	-	11,835,000
Shares to be issued – employee share schemes	-	-	-	(92,888)	-	(92,888)
Shares to be issued – increase in value of written options	-	-	-	38,702	-	38,702
Total Transactions with Owners Recognised Directly in Equity	2,914	11,832,086	-	(54,186)	-	11,780,814
Balance as at 31 December 2018	£ 5,449	£ 12,385,201	-	£ 372,688	£ (9,565,663)	£ 3,197,675

The accounting policies and notes on pages 22 to 62 form part of these financial statements.

AZUR GROUP HOLDINGS LIMITED
COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Note	Attributable to Equity Shareholders of the Company					Total £
		Share capital £	Share premium £	Own share reserve £	Other reserves £	Retained earnings £	
Balance as at 1 January 2019		5,449	12,385,201	-	372,688	177,155	12,940,493
Loss for the period		-	-	-	-	(79,234)	(79,234)
Other Comprehensive Income		-	-	-	-	-	-
Total Comprehensive Income		-	-	-	-	(79,234)	(79,234)
Transactions with Owners							
Proceeds from shares issued	18	1,151	1,478,523	(233,490)	-	-	1,246,184
Shares to be issued – employee share schemes	19	-	-	-	1,915,065	-	1,915,065
Redeemable preference share adjustment	19	-	250,000	-	-	-	250,000
Shares to be issued – warrant embedded in term loan	19	-	-	-	(525,107)	-	(525,107)
Shares to be issued – decrease in value of issued options	19	-	-	-	(12,476)	-	(12,476)
Total Transactions with Owners Recognised Directly in Equity		1,151	1,728,523	(233,490)	1,377,482	-	2,873,666
Balance as at 31 December 2019		£ 6,600	£ 14,113,724	£ (233,490)	£ 1,750,170	£ 97,921	£ 15,734,925

	Note	Share capital £	Share premium £	Own share reserve £	Other reserves £	Retained earnings £	Total £
		£	£	£	£	£	£
Balance as at 1 January 2018		2,535	553,115	-	426,874	(298,128)	684,396
Profit for the period		-	-	-	-	475,283	475,283
Other Comprehensive Income		-	-	-	-	-	-
Total Comprehensive Income		-	-	-	-	475,283	475,283
Transactions with Owners							
Proceeds from shares issued		2,914	11,832,086	-	-	-	11,835,000
Shares to be issued – employee share schemes		-	-	-	(94,888)	-	(94,888)
Shares to be issued – increase in value of issued options		-	-	-	38,702	-	38,702
Total Transactions with Owners Recognised Directly in Equity		2,914	11,832,086	-	(54,186)	-	11,780,814
Balance as at 31 December 2018		£ 5,449	£ 12,385,201	-	£ 372,688	£ 177,155	£ 12,940,493

The accounting policies and notes on pages 22 to 62 form part of these financial statements.

AZUR GROUP HOLDINGS LIMITED
GROUP STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	Note	2019 £	2018 £
Cash Flows from Operating Activities			
Cash absorbed by operations	29	(2,940,217)	(3,451,747)
Net Cash Absorbed by Operating Activities		(2,940,217)	(3,451,747)
Cash Flows from Investing Activities			
Interest received		329	991
Purchases of property, plant and equipment	13	(4,771)	(7,863)
Purchases of intangible assets	14	-	(5,214)
Loans to related parties	25	(79,500)	(150,000)
Net Cash Used in Investing Activities		(83,942)	(162,086)
Cash Flows from Financing Activities			
Proceeds from issuance of ordinary shares	18	1,246,184	8,093,754
Interest paid on shareholder loans		-	(165,038)
Repayment of principal amount of lease	24	(454,652)	-
Payment of interest expense on lease liabilities	10	(14,440)	-
Equity subscriptions pending share allotment	26	733,381	-
Shareholder loans drawn down/(repaid)	22	2,454,585	(2,609,265)
Other loans (repaid)/drawn down	22	(116,877)	344,250
Net Cash Generated from Financing Activities		3,848,181	5,663,701
Net Increase in Cash, Cash Equivalents and Bank Overdrafts		824,022	2,049,868
Cash, cash equivalents at beginning of year	17	2,450,814	400,946
Cash and Cash Equivalents at End of Year	17	£ 3,274,836	£ 2,450,814

The accounting policies and notes on pages 22 to 62 form part of these financial statements.

AZUR GROUP HOLDINGS LIMITED
COMPANY STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	Note	2019 £	2018 £
Cash Flows from Operating Activities			
Cash generated from/(absorbed by) operations	29	78,453	(107,539)
Net Cash Generated from/(Absorbed by) Operating Activities		78,453	(107,539)
Cash Flows from Investing Activities			
Interest received		329	991
Investment in subsidiary undertakings	11	(86,358)	-
Loans to subsidiary undertakings	25	(2,743,710)	(4,178,226)
Loans to related parties	25	(79,500)	(150,000)
Dividends received from subsidiaries		-	500,000
Net Cash Used in Investing Activities		(2,909,239)	(3,827,235)
Cash Flows from Financing Activities			
Proceeds from issuance of ordinary shares	18	1,246,184	8,093,754
Interest paid on shareholder loans		-	(165,037)
Equity subscriptions pending share allotment	26	733,381	-
Shareholder loans drawn down/(repaid)	22	2,454,585	(2,609,265)
Net Cash Generated from Financing Activities		4,434,150	5,319,452
Net Increase in Cash, Cash Equivalents and Bank Overdrafts		1,603,364	1,384,678
Cash, cash equivalents at beginning of year	17	1,419,741	35,063
Cash and Cash Equivalents at End of Year	17	£ 3,023,105	£ 1,419,741

The accounting policies and notes on pages 22 to 62 form part of these financial statements.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

1. General Information

Azur Group Holdings Limited (the "Company") is a private company limited by shares which is incorporated and domiciled in the UK.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Azur Group Holdings Limited have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations ("IFRS IC") as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

Going concern

On 23 October 2019 the Group's shareholders approved a £5.25 million funding round, comprising a £2.75 million equity raise, via a rights issue, and a £2.5 million non-amortising 3-year term loan. The equity raise was successfully concluded in March 2020 with final equity subscriptions of £2.82 million. The debt was fully drawn down on 23 December 2019.

Although the business returned to pre-COVID-19 operating levels within a 6-week period of the government-mandated lockdown on 23 March 2020, with the depth and duration of the COVID 19 economic disruption unknown, consistent with the philosophy of "hope for the best, plan for the worst", the Directors have implemented a series of cost-cutting initiatives to increase the business's resilience including the elimination of all discretionary expenditure, 12-month pay cuts for Executive Committee members and downsizing the office.

The Directors have developed a suite of financial and non-financial triggers, monitored and reassessed on a daily basis, which they believe enable them to closely monitor the economic environment and respond quickly to changed circumstances.

Based on the assessment that COVID-19 will not have a significant adverse impact on the Group's business and the additional operating resilience established, after making enquiries, and taking into consideration cash flow forecasts, the Directors have a reasonable expectation that the additional funding secured ensures the Group has adequate resources to continue to meet its ongoing working capital requirements and expenditure commitments and support its growth aspirations for a period of at least 12 months from the date of approval of the financial statements and to continue in operational existence for the foreseeable future. The Group, therefore, continues to adopt the going concern basis in preparing its consolidated financial statements. Further information on the Group's borrowing is given in Note 22 and Note 32.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Changes in accounting policies and disclosures

(a) New standards, amendments and interpretations adopted by the Company

A new standard became effective for the first time for the financial year beginning 1 January 2019:

- International Reporting Standard ("IFRS") 16 'Leases'

On 1 January 2019 the Group adopted the modified retrospective approach to account for its office lease contract under IFRS 16 'Leases'. Accordingly, the initial impact of the Group's adoption of IFRS 16 is accounted for as a single adjustment to shareholder's equity as at 1 January 2019.

The Group recognises a Right-of-Use ("ROU") asset of £551,684 and a corresponding lease liability of £571,020 in its Statement of Financial Position.

On initial recognition of the lease liability, the Group excludes Value-Added Taxes ("VAT") from the discounted cash flows embedded in the present value of the future lease payments. This is because VAT does not form part of the financial substance of the underlying lease transaction between the Group and the lessor but rather is a UK consumption taxes requirement. VAT is subsequently accounted for on a cash accounting basis.

Consistent with the Group's decision to apply the modified retrospective approach, the Group elects to use an amount equal to the lease liability to measure the ROU asset.

In its Statement of Comprehensive Income for 2019, the Group has written back £985,089 of the life-to-date aggregate office rent expense incurred and charged £772,358 and £67,888 for depreciation attributable to its ROU asset and interest expense attributable to the lease liability, respectively. In addition, the Group has separately accounted for £164,179 of VAT on a cash accounted basis.

The net effect of the adjustment is a £19,336 decrease in opening shareholders' equity at 1 January 2019.

(b) New standards and interpretations not yet adopted

A number of amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group or Parent Company.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date that control passed.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Costs directly attributable to an acquisition that do not relate to the arranging and issuance of debt or equity instruments used to finance the acquisition are included in the initial measurement of the cost of the business combination. General administrative costs and those that cannot be directly attributed to a given acquisition are expensed as incurred. Equity arrangement and issuance costs are deducted from equity proceeds whilst debt arrangement and issuance costs are reflected in the initial measurement of the debt liability.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to Other Comprehensive Income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

All inter-company transactions, balances, income, expenses and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Pounds Sterling ("£"), which is the Group's and Company's functional and the Group's and Company's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in Other Comprehensive Income as qualifying cash flow hedges and qualifying net investment hedges. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevalent at the date of the transactions.

Foreign currency gains and losses are reported on a net basis.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit or loss within Finance Costs. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in Other Comprehensive Income.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets measured at fair value are included in Other Comprehensive Income.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Office equipment	-	3 years
IT & Communication equipment	-	3 years

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other (Losses)/Gains – Net" in the income statement.

Intangible assets

Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditure that does not meet these criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which do not exceed 4 years.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Financial assets

The Group classifies its financial assets into the following categories:

- Amortised Cost
- Fair Value through Other Comprehensive Income ("FVTOCI")
- Fair Value through profit or loss ("FVTPL")

The classification depends on the Group's objective for holding and managing the financial asset, together with the cash flow characteristics of the financial asset.

At initial recognition, the Group measures its financial assets at their fair value, inclusive of transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition, the Group measures its financial assets at amortised cost if both the following conditions are met:

- a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Otherwise the Group measures its financial assets at Fair Value through Other Comprehensive Income or Fair Value through profit or loss.

Impairment of financial assets

Assets carried at amortised cost

For trade receivables and contract assets of one year or less, or ones that do not contain a significant financing component, the Company adopts the simplified model for impairing financial assets whereby it is not required to determine whether there has been a significant increase in credit risk ("SICR") since initial recognition; rather the Company recognises a loss allowance at an amount equal to lifetime expected credit losses ("ECLs").

The Group employs a provision matrix using a combination of days past due and its historically observed credit loss experience over the life of the trade receivables, adjusted for forward-looking estimates to estimate lifetime ECLs. Where relevant, the Group segregates its trade receivables if its historical credit loss experience shows significant different loss patterns for different customer segments.

The Group and the Company has not impaired any of its trade receivables. In coming to this conclusion the Directors determined that the historically observed credit loss experience over the life of the trade receivables was nil having adjusted for current economic conditions.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Financial assets (continued)

Cash and cash equivalents

In the consolidated Statement of Cash Flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

Insurance intermediation debtors and creditors

As a Managing General Agent the subsidiary undertaking, Azur Underwriting Limited, acts as an agent in the placement of insurable risks on a risk-transfer basis on behalf of insurers and is not liable, as principal, for amounts arising from such transactions.

In recognition of this relationship, debtors from insurance intermediation transactions are not included as an asset of the Group. Other than the receivable for brokerage, commissions or fees earned on placement of an insurable risk, no recognition of the insurance transactions occurs until the Group receives cash in respect of the premiums or claims, at which time a corresponding liability is established in favour of the insurer or cedant, unless the cash is held in trust for the benefit of the insurer or cedant, in which case neither the cash nor the corresponding liability is reflected in the Group's financial statements.

Trade receivables

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

Trade receivables are recognised initially at fair value, and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Financial liabilities

Trade payables

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

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

Borrowings

Borrowings are recognised initially at cost, with transaction costs directly attributable to the loan issuance added to its cost. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings, using the effective interest method.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Financial liabilities (continued)

Borrowings (continued)

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services, and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group or Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Other financial liabilities

An embedded derivative is separated from the host loan and accounted for as a derivative under IFRS 9 if (i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host loan, (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (iii) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).

Trade finance

The subsidiary undertaking Aztech Advantage Limited was advanced a trade finance loan of US \$350,000 on the signing of a Development, Servicing and Licencing Agreement with biBerk Insurance Services Inc. and BHHC Specialty Risk, LLC (together "Berkshire Hathaway") in December 2017 to develop a proof of concept platform. A further US \$150,000 Operational Start Fee was advanced on the delivery date of the proof of concept platform. Effective from the commencement of operation in July 2018 a use-based service fee is paid by Berkshire Hathaway for the subsidiary's maintenance and operation of the platform. Berkshire Hathaway is only required to cash settle £0.50 of every £1.00 of the service fee due with the residual offset against the aggregate of the Initial Fee and Operational Start Fee. Should Berkshire Hathaway discontinue use of the platform for any reason, the balance of the loan would be recognised in income.

Share capital

Ordinary shares are classified as equity.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case the tax is also recognised directly in Other Comprehensive Income or directly in equity, as appropriate.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Current and deferred income tax (continued)

As a form of taxable income, the cash value of Research and Development Tax Credits ("RDEC") received/receivable from HM Revenue & Customs are grossed up at the prevailing corporation tax rate and recorded as Other Income. SME Research & Development tax credits ("R&D") received/receivable from HM Revenue & Customs do not constitute taxable income and are recorded in the Statement of Comprehensive Income as a credit to corporation tax.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted, by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for a deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Except where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised, the Group is unable to control the reversal of temporary differences for associates.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

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

Employee benefits

Group companies operate various post-employment schemes, including defined contribution pension plans.

Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions where the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Employee benefits (continued)

Bonus plans

The Group recognises a liability and an expense for bonuses where contractually obliged, or where there is a past practice that has created a constructive obligation.

Share-based payments

The Company operates a number of equity-settled, share-based compensation plans, under which the Group receives services from employees of subsidiary undertakings as consideration for equity instruments (options) of the Company. Options are conditional on the employee completing 3 years' service (the vesting period). One third of the options are exercisable on a cliff-edge basis at the end of each year of the vesting period, subject to a 2-year service underpin. The Parent Company has no legal or constructive obligation to repurchase or settle the options in cash.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense and the corresponding entry treated as a capital contribution in Other Reserves. The Company recognises the cost as an additional cost of investment in the subsidiary with a corresponding increase in shares to be issued. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability or sales growth targets, or remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Shares to subsequently be used to satisfy the future exercise of employee share options granted by the Company are allotted to the Azur Group Employee Benefit Trust ("EBT") (following the agreement of the trustee, Estera Trust (Jersey) Limited, to subscribe for such shares) and held in trust for the benefit of employees. The proceeds, net of any directly attributable transaction costs, received from the EBT are credited to share capital (nominal value) and share premium. The purchase of shares by the EBT is funded by an interest-free loan from the Company. When options are exercised by employees, the EBT transfers ownership of the shares to the employee.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense. Specific provisions are referred to in note 4.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of discounts, returns and Value-Added Taxes.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity, and specific criteria have been met for each of the Group's activities, as described below.

The Group's revenue is derived from insurance intermediation and technology service activities.

Insurance intermediation

Revenue includes brokerage and fees, net of commissions payable, arising from the provision of insurance intermediation services to specialised sectors within the United Kingdom and overseas, together with the provision of insurance accounting & settlement and claims handling services to third-party insurers under negotiated Transitional Services Agreements.

Brokerage is recognised when the Group's contractual right to such income is established, and to the extent that the Group's relevant obligations under the contracts concerned have been performed. For most of the Group's broking activities, this means that brokerage is recognised at the inception of the underlying contract of insurance concerned, subject to a deferral of brokerage in respect of post-placement services that constitute obligations of the Group under those contracts.

Insurance accounting & settlement and claims handling fees are deferred and recognised throughout the life of the negotiated Transitional Service Agreement.

Technology services

Revenue includes the provision of technology services, under negotiated licence agreements, comprising demand generation Software as a Service ("SaaS") product and services and Platform as a Service ("PaaS") solutions to third-party insurers and insurance intermediaries.

PaaS GWP use-based fees are fees earned by the Group for the provision of the right to use and/or right to access its end-to-end underwriting platform, customised to meet a given insurer's specific insurance product and market requirements.

PaaS GWP use-based fees (aka as "PaaS Service Fees") compensate the Group for the management, operation, maintenance and generic enhancement of the customised underwriting platform. In consideration for the PaaS Service Fee, the Group grants non-exclusive licences to its customers over the term of their licence agreements. The Group's licence agreements are underpinned by Service Level Agreements ("SLAs") which regulate the quantum and quality of operational support for the platform and are agreed with the customer on inception of the contract. Whilst the PaaS Service Fee is not contingent upon the Group operating in line with the SLA, it provides a clear summation of the Group's performance obligations.

SaaS fees are generally in the form of user-based licence fees for the provision of the right to use and/or access the Group's proprietary applications, including its demand generation, content marketing and CPD delivery platform, Broker iQ.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Platform Development Fees are generally non-recurring fees earned for the development or enhancement and subsequent delivery of the Group's end-to end underwriting platform.

Development work is documented in a Statement of Work that sets out each aspect of the phased design, build and integration of distinct modules to meet the customer's specific insurance product and market requirements. The Group utilises an Agile development methodology structured around a two-weekly development cycle ("sprint").

Product Development Fee revenue is recognised when the Group's contractual right to a Platform Development Fee is established following satisfaction of the performance obligations set out in the Statement of Work.

Where key milestones and deliverables are set out in the Statement of Work, Product Development Fee revenue is recognised as those milestones are achieved and in accordance with the revenue recognition payment terms specified in the Statement of Work. In the absence of specific milestone events, Platform Development Fee revenue is recognised evenly over the anticipated development period, consistent with the two-weekly sprints inherent within an Agile development methodology and delivery of development work on a module-by-module basis.

The Group has a trade finance loan with biBerk Insurance Services Inc. and BHC Specialty Risk, LLC (together "Berkshire Hathaway") that represents an Initial Fee of USD \$350,000 advanced to the group undertaking Aztech Advantage Limited on the signing of a Development, Servicing and Licencing Agreement to develop a proof of concept platform. A further USD \$150,000 Operational Start Fee was advanced on the delivery date of the proof of concept platform. Effective from the commencement of operation a use-based service fee is paid by Berkshire Hathaway for Aztech Advantage Limited's maintenance and operation of the platform. Berkshire Hathaway is only required to pay £0.50 of every £1.00 of the service fee due with the residual offset against the aggregate of the Initial Fee and Operational Start Fee. The Group recognises the full value of the service fee as revenue on a monthly basis as the platform is in operation in line with the fee being invoiced monthly in arrears.

Fees, recharges and other income receivable are recognised in the period to which they relate.

Other income

Profit commission arising from the placement of insurance contracts or the exercise of an underwriting agency by a Group insurance intermediary is recognised when the right to such profit commission is established through a contract, but only to the extent that a reliable estimate of the amount due can be made. Such estimates are made on a basis that reflects the level of uncertainty involved.

As a form of taxable income, the cash value of Research and Development Tax Credits ("RDEC") received/receivable from HM Revenue & Customs are grossed up at the prevailing corporation tax rate and recorded as Other Income.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

2. Summary of significant accounting policies (continued)

Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves the use of an identified asset;
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use;
- The Group has the right to direct the use of the asset.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the 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 estimated useful lives of right-to-use assets are determined on the same basis as those of property and equipment.

The lease liability is initially measured at present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Short term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of twelve months or less and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, foreign exchange risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is performed by the Board of Directors through its sub-committee the Group Risk Committee, which is responsible for the identification, evaluation and hedging of financial risks. The Committee provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and the investment of surplus liquidity.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

3. Financial risk management (continued)

Financial risk factors (continued)

Credit risk

Credit risk is managed on a Group basis.

Credit risk arises from cash and cash equivalents and deposits maintained with banks and financial institutions, as well as credit exposures to insurance intermediaries and insured customers, including outstanding receivables and committed transactions. If insurance intermediaries are independently rated, these ratings are used. If there is no independent rating, the Finance Department assesses the credit quality of the intermediary, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored.

Management does not expect any losses from non-performance by these counterparties.

Liquidity risk

Cash flow forecasting is performed at both a Group and subsidiary undertaking level and aggregated by the Finance Department. The Department monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal Statement of Financial Position ratio targets, and external regulatory or legal requirements.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings, based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2019				
Borrowings	£ 250,408	£ -	£ 2,454,585	£ 1,250,000
Trade and other payables	£ 2,316,010	£ -	£ -	£ -
Lease liabilities	<u>£ 77,793</u>	<u>£ -</u>	<u>£ -</u>	<u>£ -</u>
At 31 December 2018				
Borrowings	£ 375,938	£ -	£ -	£ 1,500,000
Trade and other payables	<u>£ 1,349,288</u>	<u>£ -</u>	<u>£ -</u>	<u>£ -</u>

Foreign exchange risk

Foreign exchange risk arises from adverse changes in currency exchange rates.

The Group and Company, which has as its functional currency Pounds Sterling, was exposed to minimal levels of foreign exchange risk during the period as its revenues, recharges and material expenditure were predominantly denominated in Pounds Sterling and Euros.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

3. Financial risk management (continued)

Financial risk factors (continued)

Interest rate risk

Interest rate risk arises from increases in market interest rates and with the cumulative redeemable preference shares on a fixed-interest basis arises primarily from the £2.5 million 3-year term loan and could potentially arise from the use of bank overdrafts.

The Group manages its exposure to interest rate risk by regularly monitoring interest rates and avoiding the use of bank overdrafts.

4. Critical accounting estimates and judgements

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Profit commission

Profit commission arising from the placement of insurance contracts or the exercise of an underwriting agency by the Group is recognised when the right to such profit commission is established through a contract, but only to the extent that a reliable estimate of the amount due can be made. Such estimates are made on a prudent basis that reflects the level of uncertainty involved.

Post-placement services provision

The Group has an obligation to provide services following the placement of insurance policies under certain contracts to facilitate the claims process between the insurer and insured. In order to recognise the post-placement obligation an amount of income is deferred. The amount of income to defer is estimated by management after taking into account factors such as the number, size and complexity of claims received and their anticipated cost base. The assumptions reflect historical experience, current trends and management's best estimate.

Cancelled service premium provision

A provision is made against the PaaS GWP-based service fees to cover the risk of cancellation of an underlying serviced insurance policy and resultant return of a proportion of the PaaS service fee. Such provision is estimated based on the last twelve months experience of cancelled premiums as a percentage of total serviced premiums. The cancellation percentage over the last twelve months is applied to the premium on risk at the period end and a provision derived using applicable contracted PaaS service fee rates.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

5. Revenue

The Group derives its revenue from the provision of insurance intermediation services and technology services to specialised sectors within the United Kingdom and overseas. An analysis of revenue derived by the Group is as follows:

	2019 £	2018 £
Income from insurance intermediation:		
- Brokerage	4,765,336	3,958,888
- Written premium volume contributions paid to brokers	(70,380)	(16,466)
	<u>4,694,956</u>	<u>3,942,422</u>
Insurance accounting & settlement and claims handling fees	45,000	45,000
Income from technology services:		
- PaaS Development Fees	1,468,604	-
- PaaS Service Fees	215,110	35,655
- PaaS consultancy fees	4,050	-
- Content marketing, demand generation & CPD fees	-	4,500
	<u>1,687,764</u>	<u>40,155</u>
Miscellaneous Income	317	702
	<u>£ 6,428,037</u>	<u>£ 4,028,279</u>

6. Other income

	2019 £	2018 £
Profit commission	365,526	396,723
RDEC tax credits	428,054	-
	<u>£ 793,580</u>	<u>£ 396,723</u>

On 19 March 2020 profit commission of £430,247 (2018: £396,723) for the period 1 December 2018 to 30 November 2019 was received, of which £365,526 has been recognised in the Statement of Comprehensive Income in the year.

The insurer calculated profit commission for the period December 2018 to 30 November 2019 was £494,968. In performing the calculation for the current year, the insurer noted an error in the previous 2 years' calculations in the aggregate amount of £129,442 which it decided to recover in equal instalments from the current year and the next year's payments.

Research and development tax credits relating to the period 2016 to 2018 were approved by HMRC during the year. The associated cash receipts in the aggregate of £54,390, £136,430 and £154,903 in respect of tax years 2016, 2017 and 2018 were received by Group undertakings on 7 February 2019, 6 September 2019 and 20 January 2020, respectively. In accordance with accounting policy RDEC tax credits are grossed up at the prevailing rate of corporation tax and disclosed as Other Income.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

7. Operating loss

The following items have been included in arriving at the operating loss for the year:

	2019 £	2018 £
Auditor remuneration (Note 8)	31,000	29,500
Depreciation (Note 13)	32,510	35,402
Depreciation right-of-use asset (Note 13)	443,400	-
Amortisation & impairment (Note 14)	95,485	193,550
Gain from early termination of the office lease (Note 24)	7,954	-

8. Auditor remuneration

During the year, the Group obtained the following services from the Company's auditor and its associates.

	2019 £	2018 £
Fees payable to the Company's auditor and its associates for the audit of the Company and consolidated financial statements	10,500	10,000
Fees payable to the Company's auditor and its associates for other services:		
- Audit services to the Company's subsidiaries	20,500	19,500
- Tax advisory services	-	-
	<u>£ 31,000</u>	<u>£ 29,500</u>

9. Information regarding employees

Employee expense

Group

	2019 £	2018 £
Wages and salaries	4,856,468	4,173,105
Share options granted to Directors and employees (Note 21)	1,915,065	(92,888)
Social security costs	637,496	518,490
Pension costs – defined contribution plans	242,672	207,240
Other staff costs	172,384	166,925
	<u>£ 7,824,085</u>	<u>£ 4,972,872</u>

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

9. Information regarding employees (continued)

Average number of people employed

	2019	2018
Group		
Average number of people (including executive Directors) employed:		
Underwriting	21	19
Technology services	22	19
Claims handling & insurance premium accounting & settlement	6	6
Administration	17	15
	66	59
Company		

The Company had no employees during the year (2018: nil)

10. Finance costs

	2019 £	2018 £
Interest expense:		
- Shareholder loan (Note 22)	131,463	319,876
- Lease interest expense	14,440	-
- Other finance costs	118	160
	£ 146,021	£ 320,036

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

11. Investments

Principal subsidiaries

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares held directly by the Company (%)	Proportion of ordinary shares held by the Group (%)
Azuru Services Ltd	London, UK	Group service company	100%	100%
Azur Insurance Holdings Ltd	London, UK Inc. 18 July 2019	Intermediate holding company	100%	100%
Azur Underwriting Ltd	London, UK	Insurance intermediary	-%	100%
Azur UW Finance (Ireland) Ltd	Dublin, ROI	Insurance intermediary	-%	100%
Aztech Advantage Ltd	London, UK	Technology services	100%	100%
Aztech Advantage (USA) Inc.	Delaware, USA	Dormant technology services	100%	100%
Broker IQ Ltd	London, UK	Dormant name reservation company	100%	100%
CyberGard Ltd	London, UK Inc. 8 July 2019	Dormant name reservation company	100%	100%

All subsidiary undertakings are included in the consolidation.

The proportion of the voting rights in the subsidiary undertakings held directly by the Company does not differ from the proportion of ordinary shares held.

Investments in group undertakings are recorded at cost, which is the fair value of the consideration paid.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

11. Investments (continued)

Investments in subsidiaries

	Shares in group undertakings £
Cost and net book value:	
At 1 January 2019	600,377
- Additions in year	86,358
- Capital contribution relating to share-based payments (Note 21)	1,915,065
31 December 2019	£ 2,601,800

12. Income tax

	2019 £	2018 £
Current tax:		
Current tax on loss for the year	(478,693)	36,335
Adjustments in respect of prior years	-	32,399
Total current tax	(478,693)	68,734
Deferred tax (Note 28):		
Origination and reversal of temporary differences	(369,924)	(696,879)
Adjustments in respect of prior periods	196	(133,578)
Total deferred tax	(369,728)	(830,457)
Income tax credit	£ (848,421)	£ (761,723)

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

12. Income tax (continued)

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits/(losses) of the Group, as follows:

	2019 £	2018 £
Loss before tax	(5,133,985)	(4,227,260)
Tax calculated at standard rate of corporation tax in the UK for the year of 19% (2018: 19%)	(975,457)	(802,612)
Tax effects of:		
- Expenses not deductible for tax purposes	415,860	50,913
- Fixed asset differences	15,289	-
- Non-taxable intragroup income	140,030	-
- Income not taxable for tax purposes	-	(27,310)
- Other permanent differences	178	145
- Additional deduction for SME R&D expenditure	(553,067)	-
- Surrender of tax losses for SME R&D tax credit refund	148,561	-
- RDEC expenditure credits	(81,330)	36,335
- Adjustments to tax charge in respect of prior periods	196	(101,179)
- Difference in tax rate for Irish subsidiary	1,701	-
- Impact of change in accounting policy	(3,673)	-
- Re-measurement of deferred tax due to change in the UK tax rate	43,291	81,985
Income tax credit	£ (848,421)	£ (761,723)

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

13. Property, plant and equipment

	Right-of-use assets; buildings £	IT & comms equipment £	Office equipment £	Total £
Cost or valuation				
At 1 January 2019	-	72,964	49,897	122,861
Recognition of right-of-use asset on initial application of IFRS 16	551,684	-	-	551,684
Remeasurement of right-of-use asset	(30,620)	-	-	(30,620)
Additions	-	1,966	2,805	4,771
At 31 December 2019	521,064	74,930	52,702	648,696
Depreciation				
At 1 January 2019	-	54,173	27,085	81,258
Charge for the year	443,400	16,175	16,335	475,910
At 31 December 2019	443,400	70,348	43,420	557,168
Net book amount				
At 1 January 2019	£ -	£ 18,791	£ 22,812	£ 41,603
At 31 December 2019	£ 77,664	£ 4,582	£ 9,282	£ 91,528

Depreciation expense of £475,910 (2018: £35,402) has been charged to Administrative Expenses.

The right-of-use asset was remeasured in December 2019 when the Company reached an agreement with the landlord to terminate the office lease 1 month early in February 2020.

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

14. Intangible assets

	Software development costs £
Cost or valuation	
At 1 January 2019	575,488
Additions	-
At 31 December 2019	575,488
Amortisation and impairment	
At 1 January 2019	193,550
Amortisation charge for the year	95,485
At 31 December 2019	289,035
Net book value	
At 1 January 2019	£ 381,938
At 31 December 2019	£ 286,453

An impairment charge of £193,550 was recognised by the Group in September 2018 due to the release of improved configurable software tools rendering elements of completed development work obsolete.

15. Financial instruments by category

Group

	31 December 2019 Loans and receivables £	31 December 2018 Loans and receivables £
Assets per Statement of Financial Position		
Trade and other receivables, excluding prepayments and accrued income	1,643,601	746,430
Cash and cash equivalents	3,274,836	2,450,814
Total	£ 4,918,437	£ 3,197,244

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

15. Financial instruments by category (continued)

Group (continued)

	31 December 2019 Other financial liabilities at amortised cost £	31 December 2018 Other financial liabilities at amortised cost £
Liabilities per Statement of Financial Position		
Borrowings	3,954,993	1,875,938
Trade and other payables, excluding statutory liabilities	2,316,010	1,349,288
Lease liabilities	77,793	-
Total	£ 6,348,796	£ 3,225,226

Company

	31 December 2019 Loans and receivables £	31 December 2018 Loans and receivables £
Assets per Statement of Financial Position		
Other loans and receivables	14,889,924	12,126,745
Cash and cash equivalents	3,023,105	1,419,741
Total	£ 17,913,029	£ 13,546,486

	31 December 2019 Other financial liabilities at amortised cost £	31 December 2018 Other financial liabilities at amortised cost £
Liabilities per Statement of Financial Position		
Borrowings	3,704,585	1,500,000
Trade and other payables, excluding statutory liabilities	913,540	45,709
Total	£ 4,618,125	£ 1,545,709

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2019

16. Trade and other receivables

Group	2019	2018
	£	£
Trade debtors	830,730	622,367
Other receivables	179,275	123,793
Tax receivable	633,596	-
Prepayments and accrued income	1,055,078	1,008,467
	<u>£ 2,698,679</u>	<u>£ 1,754,897</u>

Tax Receivable includes £154,903 (2018: £nil) of Research & Development Tax Credits and £478,693 (2018: £nil) of SME R&D Tax Credits receivable by group undertakings.

Company	2019	2018
Prepayments and accrued income	<u>£ 365,955</u>	<u>£ 337,614</u>

17. Cash and cash equivalents

Group	2019	2018
Cash at bank and in hand	<u>£ 3,274,836</u>	<u>£ 2,450,814</u>

Cash and cash equivalents include the following for the purposes of the Statement of Cash Flows:

	2019	2018
Cash and cash equivalents	<u>£ 3,274,836</u>	<u>£ 2,450,814</u>

Company	2019	2018
Cash at bank and in hand	<u>£ 3,023,105</u>	<u>£ 1,419,741</u>

Cash and cash equivalents include the following for the purposes of the Statement of Cash Flows

Company	2019	2018
Cash and cash equivalents	<u>£ 3,023,105</u>	<u>£ 1,419,741</u>

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18. Share capital, share premium and own share reserve

	Number of shares (‘000’s)	Ordinary shares £	Share premium £	Own share reserve £	Total £
At 1 January 2019	6,075	5,449	12,385,201	-	12,390,650
Redeemable preference shares adjustment	-	-	250,000	-	250,000
Issue of shares to EBT	905	905	232,585	(233,490)	-
Ordinary shares issued 15 November 2019	185	186	939,814	-	940,000
Ordinary shares issued 20 December 2019	60	60	306,124	-	306,184
At 31 December 2019	7,225	£ 6,600	£ 14,113,724	£ (233,490)	£ 13,886,834

The total authorised number of ordinary shares is 6,600,319 with a par value of £0.001 per share and 625,000 10% Cumulative Redeemable Preference Shares with a par value of £2.00.

Save in the event of listing, sale or winding-up of the Company, the preference shares carry no rights to participate in the profits or assets of the Company nor do they enjoy any voting rights except in votes pertaining to the rights attaching to the preference shares. In the event of an exit the redeemable preference shareholder shall be entitled to receive £2.00 per share plus the fixed 10% cumulative annual dividend, calculated on a daily basis from the date of issue of each redeemable preference share. The Company may redeem a minimum of 125,000 redeemable preference shares at any time by serving a notice of redemption.

The full amount required to redeem the preference shares is recognised as a Non-current Borrowing in the Statement of Financial Position with a commensurate reduction in Share Premium, as the preference shares have been issued for nil monetary consideration.

As part of the Company's £5.32 million Series A+ debt and equity fund raise:

- On 15 November 2019 185,440 ordinary shares of £0.001 each were issued at £5.069 to existing institutional and EIS investors; and
- On 20 December 2019 60,403 ordinary shares of £0.001 each were issued at £5.069 to existing institutional and EIS investors.

The Series A+ equity fund raise was closed in March 2020 following receipt of approval from the Financial Conduct Authority for an institutional investor to return to being a greater than 20% shareholder, with the following share issuance taking place after the reporting period:

- On 10 January 2020 12,539 ordinary shares of £0.001 each were issued at £5.069 to existing EIS investors;
- On 20 March 2020 298,344 ordinary shares of £0.001 each were issued at £5.069 to existing Institutional investors; and
- On 20 March 2020 125,000 10% Cumulative Redeemable Preference shares of £2 each were issued to the existing preference shareholder for nil monetary consideration.

In order to provide an internal market in the equity shares of the Company, on 10 September 2019 an employee benefit trust, the Azur Group Employee Benefit Trust (the "EBT") was established. The EBT subscribed for 797,000 and 108,000 ordinary shares of £0.001 each issued at 25.8p on 13 September 2020 and 20 December 2020, respectively.

AZUR GROUP HOLDINGS LIMITED
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19. Other reserves

	Shares to be issued 2019 £
At 1 January 2019	372,688
Decrease in value of written option over 10,000 shares held by Founder & CEO (Note 32)	(12,476)
Warrant shares issued (Note 22)	(529,459)
Amortisation of warrant shares (Note 22)	4,352
Shares to be issued in settlement of EMI Share Options (Note 21)	1,915,065
At 31 December 2019	£ 1,750,170

20. Retained earnings

Group	2019 £
At 1 January 2019	(9,565,663)
Impact of change in accounting policy (Note 2)	(19,336)
Loss for the year	(4,285,564)
At 31 December 2019	£ (13,870,563)

Company	2019 £
At 1 January 2019	177,155
Loss for the year	(79,234)
At 31 December 2019	£ 97,921

21. Share-based payments

Share options which will be satisfied by the delivery of the equity of the Company were granted to specific Directors and employees of the Group under both an HM Revenue & Customs approved EMI Share Option scheme and an unapproved share option scheme in recognition of services provided.

The options are exercisable at a price equal to the Actual Market Value of the Company's shares on the date of grant agreed, in the case of the approved EMI Share Option scheme, with HM Revenue & Customs. The vesting period is three years. One third of the options can be exercised at the end of each year over the vesting period, subject to a two-year service underpin. If the options remain unexercised after a period of ten years from the date of grant, they expire. In the event an employee leaves the employment of the Group before the options vest standard Good Leaver/Bad Leaver conditions apply. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

AZUR GROUP HOLDINGS LIMITED
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21. Share-based payments (continued)

The outstanding awards by scheme are as follows:

Scheme	Number of Recipients	Optioned shares	Grant date	Expiry date	Exercise price	Fair value at grant date
					£	£

Azur Group EMI Option Plan:

- 2017 grants	1	5,000	31/05/17	30/05/27	0.130	1.69
- 2019 grants	46	770,500	16/09/19	15/09/29	0.258	4.48

Unapproved options:

- 2017	1	5,000	02/02/17	01/02/27	0.041	0.20
- 2018	1	8,000	12/02/18	11/02/28	0.130	0.61
- 2019	3	27,000	16/09/19	15/09/29	0.258	4.48

Details of the movement in the Azur Group EMI Option Plan during the period are as follows:

	Number of recipients	Optioned shares	Weighted average exercise price
			£
Outstanding at 1 January 2019	30	342,000	0.095
Surrendered during the period	(29)	(328,000)	0.095
Granted during the period	46	772,000	0.258
Exercised during the period	-	-	-
Lapsed during the period	3	(10,500)	0.099
Outstanding at the end of the year	47	775,500	£ 0.257
Exercisable at the end of the year	47	375,696	£ 0.258

Of the 775,500 options outstanding, 375,696 (2018: 162,866) were exercisable at the reporting date.

Following the occurrence of a "disqualifying event", which was an unintended consequence of the Company's capital reorganisation in September 2018, whereby the existing classes of A Ordinary Shares of £0.001 each and B Ordinary Shares of £0.001 each were simultaneously converted into a single class of ordinary shares of £0.001 each, recipients of grants under the Azur Group EMI Option Plan 2016 ("EMI Plan 2016") were invited to surrender their options in whole for no consideration, consistent with the loss of the EMI tax advantaged status of the options.

With the exception of one employee who is the recipient of a grant that subsists over 5,000 shares, and 9,000 options which lapsed earlier in the year, all employees elected to surrender their shares and duly did so on 9 August 2019.

After the financial year end 1,708 options were exercised on 16 March 2020.

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21. Share-based payments (continued)

Details of the movement in unapproved options during the period are as follows:

	Number of recipients	Optioned shares	Weighted average exercise price £
Outstanding at the 1 January 2019	2	13,000	0.096
Granted during the period	3	27,000	0.258
Exercised during the period	-	-	-
Lapsed during the period	-	-	-
	<u>3</u>	<u>40,000</u>	<u>£ 0.205</u>
Outstanding at the end of the year	<u>3</u>	<u>40,000</u>	<u>£ 0.205</u>
Exercisable at the end of the year	<u>3</u>	<u>18,305</u>	<u>£ 0.139</u>

Of the 40,000 unapproved options outstanding, 18,305 (2018: 1,666) were exercisable at the reporting date.

	2019	2018
Total share-based payment expense/(net write back) recognised in the year	<u>£ 1,915,065</u>	<u>£ (92,888)</u>

The fair value of options granted during the period, determined using the Black-Scholes valuation model, was £4.48 per option. The significant inputs into the model were the share price of £4.7314 at the grant date, the exercise price of 25.8p, volatility of 12.3%, dividend yield of 0%, expected option life of 5 years and an annual risk-free interest rate of 0.69%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last 3 years.

The aggregate life-to-date expense recognised in respect of the EMI Share option and the unapproved share option schemes in the subsidiaries where the option holders are employed is £2,181,216 (2018: £325,374). In the Company this is recognised in Other Reserves in the Statement of Financial Position with a corresponding increase in cost of investment in subsidiaries.

On 10 September 2019 the Azur Group Employee Benefit Trust (the "Trust") was established and Estera Trust (Jersey) Limited (the "Trustee") was appointed as the initial corporate trustee. This necessitated:

- the adoption of new articles of association of the Company;
- the variation of the Shareholders' Agreement; and
- the execution of an operating agreement and a loan facility agreement between the Company and the Trustee in order to regulate certain dealings between the parties in connection with the administration and operation of the Trust and to provide the Trustee (to the extent it agreed) with certain funds to acquire shares in the Company.

On the same day a new Enterprise Management Incentive Plan ("EMI Plan 2019") and set of associated rules was adopted by the Company for the purpose of granting options to acquire shares in the Company to qualifying employees of the Group as determined by the Group Remuneration Committee from time to time.

AZUR GROUP HOLDINGS LIMITED
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21. Share-based payments (continued)

On 16 September 2019 a Deed of Grant was executed granting options under the EMI Plan 2019 to 46 employees over 772,000 ordinary shares of £0.001 each in the Company at an option price of 25.8 pence in accordance with the terms of the Option Agreements, Grant Letters, the Rules of the Plan and the Articles as presented to the Remuneration Committee on 12 September 2019.

In addition to having a substantially higher market value at the time of grant, a significant element of the EMI Plan 2019 option grants had accelerated vesting conditions mirroring the vested status of the EMI Plan 2016 option grants they replaced.

On surrender of the EMI Plan 2016 options in August 2019, an amount representing the vested portion of the share options surrendered was credited to the Statement of Comprehensive Income. Following the grant of the replacement options in September 2019, the amount expensed to the Statement of Comprehensive Income in respect of the 772,000 new EMI Plan 2019 options reflected both their accelerated vesting and the new fair value at grant date. The net expense recognised in 2019 of £1,915,065 (2018: net write back of £92,888) reflects both the increase in fair value of the replacement EMI Plan 2019 options and the granting of additional option awards.

22. Borrowings

Group and Company

	2019	2018
Non-current		
Shareholder loans (Note 32)	<u>£ 3,704,585</u>	<u>£ 1,500,000</u>

Group

	2019	2018
Current		
Other loans	<u>£ 250,408</u>	<u>£ 375,938</u>

AZUR GROUP HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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22. Borrowings (continued)

Summary of borrowings

Lender	Loan type	Maturity date	Interest rate	Principal amount £	Fair value £
AiG Property Casualty International, LLC	Cumulative Redeemable Preference Shares	Undated	10%	1,250,000	1,250,000
Mr RP Little	Non-amortising 3-year term loan	19/12/22	1 Month LIBOR + 10%	2,500,000	2,500,000
biBerk Insurance Services Inc. and BHHC Specialty Risk, LLC	Trade finance	-	-	250,408	250,408

The 625,000 fully-paid redeemable preference shares are mandatorily redeemable on occurrence of an exit event.

The non-amortising 3-year term loan for £2.5 million was fully drawn down on 23 December 2019. The loan is repayable on 19 December 2022 and includes interest payable at 1-month LIBOR plus 10%. As at 31 December 2019, the draw down amount net of transaction costs of £2,454,585 remained outstanding together with £6,598 of accrued interest. The loan is secured by way of a fixed and floating charge over the assets of the Company.

The loan includes a warrant to subscribe for 108,048 ordinary shares which is disclosed as a Non-current Other Financial Liability (see Note 22).

The trade finance loan represents an Initial Fee of USD \$350,000 advanced to the subsidiary company Aztech Advantage Limited ("Aztech") on the signing of a Development, Servicing and Licencing Agreement with biBerk Insurance Services Inc. and BHHC Specialty Risk, LLC (together "Berkshire Hathaway") to develop a proof of concept platform. A further USD \$150,000 Operational Start Fee was advanced on the delivery date of the proof of concept platform. Effective from the commencement of operation, a use-based service fee is paid by Berkshire Hathaway for Aztech's maintenance and operation of the platform. Berkshire Hathaway is only required to pay £0.50 of every £1.00 of the service fee due with the residual offset against the aggregate of the Initial Fee and Operational Start Fee. Having successfully delivered the platform the Initial Fee and Operational Start Fee are non-refundable with the balance of the liability to be earned out over the duration of the ongoing operation contract. Should Berkshire Hathaway discontinue use of the platform for any reason, the balance of the loan would be recognised in income.

AZUR GROUP HOLDINGS LIMITED
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23. Other financial liabilities

	2019	2018
Non-current		
Warrant embedded derivative	£ 529,459	£ -

The warrant, embedded within the £2.5 million 3-year term loan extended by the shareholder RP Little, confers the right to subscribe for 108,048 ordinary shares of £0.001 each at a total cost of £108 at any time during the exercise period, which expires on 19 March 2025. The warrant is treated as an embedded derivative and valued separately at £529,459 (2018: £nil) using the Series A+ fund raise post money equity value per share. The fair value is taken to the profit and loss over the three-year term of the loan to match the expected period over which the economic benefit of the underlying loan will be in place. As at 31 December 2019, amortisation of £4,352 (2018: £nil) has been recognised in the income statement.

24. Lease liabilities

	2019	2018
Current lease liabilities:		
- less than 1 year	£ 77,793	£ -

The movement on lease liabilities during the period is as follows:

	2019 £
At 1 January 2019	-
Recognition of lease liability on initial application of IFRS 16	571,020
Interest expense	14,440
Lease payments	(469,092)
Remeasurement	(38,575)
At 31 December 2019	£ 77,793

Lease liabilities are initially measured at the present value of lease payments outstanding at the commencement date, discounted using the interest rate implicit in the lease. For the year ended 31 December 2019, the interest rate implicit in the Group's lease was 4% (2018: n/a). VAT (including irrecoverable VAT) is excluded from the measurement of the lease liability as it does not constitute a lease payment under IFRS 16.

Lease liabilities represent fixed monthly rentals payable by the Group for its office premises, the lease for which expires at the end of February 2020.

The lease liability was remeasured in December 2019 when the Group reached an agreement with the landlord to terminate the office lease 1 month early in February 2020.

24. Lease liabilities (continued)

AZUR GROUP HOLDINGS LIMITED
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The Group has elected not to recognise lease liabilities for short-term leases that have a term of twelve months or less or for leases of low-value assets. The amount expensed in the year to the Statement of Comprehensive Income in respect of leases not included in the measurement of lease liabilities is £11,208 (2018: £nil).

	Present value of minimum lease payments 2019 £	Minimum lease payments 2019 £
Amounts payable under finance leases:		
- within 1 year	77,793	78,182
- 2 to 5 years	-	-
- after 5 years	-	-
	<u>77,793</u>	<u>78,182</u>
Less; future finance charges	-	(389)
Present value of lease obligations	<u>£ 77,793</u>	<u>£ 77,793</u>

Leases not yet commenced to which the Group is committed

At the reporting date the Group had the following commitments in respect of leases which had not commenced:

	Minimum lease payments 2019 £
Amounts payable under finance leases:	
- within 1 year	471,060
- 2 to 5 years	1,264,011
- after 5 years	-
	<u>£ 1,735,071</u>

The commitments represent fixed monthly rentals payable by the Group for new office premises, the lease for which expires at the end of December 2021.

On 1 June 2020, recognising the potentially profound impact that COVID-19 will have on how, and how much, office space is used, the Group negotiated with its new landlord to terminate this lease, moving to new smaller premises, in the same vicinity, at Linen Court, 10 East Road, London, N1 6AD.

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25. Other loans and receivables

Group

	2019	2018
Non-current		
Directors loans	£ 229,500	£ 150,000

Company

	2019 £	2018 £
Non-current		
Loans to subsidiary undertakings (Note 32)	14,493,687	11,749,977
Directors loans	229,500	150,000
	£ 14,723,187	£ 11,899,977

	2019	2018
Current		
Loans to subsidiary undertakings (Note 32)	£ 166,737	£ 226,768

26. Trade and other payables

Group

	2019 £	2018 £
Trade payables	139,883	166,363
Other creditors	733,383	-
Social security and other taxes	45,801	129,056
Accrued expenses and deferred income	1,442,744	1,182,925
	£ 2,361,881	£ 1,478,344

Other creditors comprise the advance receipt of funds for equity subscriptions pending the completion of the Series A+ equity fund raise and subsequent share issuance.

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26. Trade and other payables (continued)

Company

	2019 £	2018 £
Other creditors	733,383	-
Accrued expenses and deferred income	12,600	9,614
Accrued interest on shareholder loans	167,557	36,095
	<u>£ 913,540</u>	<u>£ 45,709</u>

Other creditors comprise the advance receipt of funds for equity subscriptions pending the completion of the Series A+ equity fund raise and subsequent share issuance.

27. Provisions for other liabilities and charges

The movement in provisions is as follows:

	Post- placement claims handling services £	Cancelled service premium £	Total £
At 1 January 2019	71,400	-	71,400
Income statement charge	28,600	17,931	46,531
31 December 2019	<u>£ 100,000</u>	<u>£ 17,931</u>	<u>£ 117,931</u>

AZUR GROUP HOLDINGS LIMITED
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28. Deferred income tax

The analysis of deferred tax assets and liabilities is as follows:

Group

	2019	2018
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	<u>£ 2,227,431</u>	<u>£ 1,844,105</u>

The gross movement on the deferred income tax account is as follows:

	2019
	£
At 1 January 2019	1,844,105
Income statement credit (Note 12)	369,728
Adjustment in respect of prior year RDEC claim	13,598
31 December 2019	<u>£ 2,227,431</u>

Company

	2019	2018
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	<u>£ 1,725</u>	<u>£ 1,725</u>

The gross movement on the deferred income tax account is as follows:

	2019
	£
At 1 January 2019	1,725
Income statement charge	-
At 31 December 2019	<u>£ 1,725</u>

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefits through future taxable profits is probable. The Directors have prepared detailed Group and Company forecasts and expect the full amounts to be recoverable.

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29. Cash absorbed by operations

Group	2019 £	2018 £
Loss before income tax	(5,133,985)	(4,227,260)
Adjustments for:		
- Interest received	(329)	(991)
- Interest paid	131,463	165,037
- (Decrease)/Increase in value of options granted	(12,476)	38,702
- Amortisation of warrants	4,352	-
- Depreciation	32,510	35,402
- Depreciation of right-of-use asset	443,400	-
- Amortisation and Impairment charge	95,485	193,550
- Gain arising from early termination of office lease	(7,954)	-
- Interest expense on lease liability	14,440	-
- Notional financing cost	-	8,196
- Unrealised exchange losses	(6,694)	30,461
- Share-based payments	1,915,065	(92,888)
- Increase in trade and other receivables	(947,211)	(229,580)
- Increase in trade and other payables	485,187	622,424
- Increase in provisions	46,531	5,200
Cash absorbed by operations	£ (2,940,217)	£ (3,451,747)

Company	2019 £	2018 £
(Loss)/Profit before income tax	(79,234)	475,283
Adjustments for:		
- Dividends received	-	(500,000)
- Interest received	(329)	(991)
- Interest paid	131,463	165,037
- Amortisation of warrants	4,352	-
- Notional financing cost	-	8,196
- Decrease/(Increase) in trade and other receivables	31,690	(176,546)
- Increase/(Decrease) in trade and other payables	2,987	(117,220)
- (Decrease)/Increase in value of options granted	(12,476)	38,702
Cash generated from/(absorbed by) operations	£ 78,453	£ (107,539)

30. Contingencies

A Senior Management Performance Ratchet ("SMPR") was agreed with the shareholders as part of the capital restructuring concluded in September 2018. The terms of the SMPR state that 10% of any increase in the Company's valuation between £100 million and £350 million is available to be distributed amongst senior management and employees, as determined by the Company's Executive Committee, with the maximum cash payment under the SMPR capped at £25 million.

AZUR GROUP HOLDINGS LIMITED
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30. Contingencies (continued)

Under the terms of the Managing General Agency Agreement ("MGAA") entered into with American International Group Limited ("AIG UK") the subsidiary company Azur Underwriting Limited ("Azur Underwriting") is entitled to a share of AIG UK's annual underwriting profit ("Profit Share"). The terms of the MGAA are such that (i) it may be terminated only by AIG UK, except in the event of default or regulatory infraction and (ii) where an underwriting loss is determined for an underwriting year it shall be carried forward to the calculation of the underwriting profit for the subsequent underwriting year.

In the event of termination of the MGAA, should the Profit Share calculation for the final year produce a loss, Azur Underwriting shall repay to AIG UK an amount equal to the loss, capped at a maximum of an amount equivalent to the two most recent Profit Share payments. The maximum potential liability as at the 31 December 2019 was £891,691 (2018: £721,694).

31 Business combinations

No acquisitions took place in the year ended 31 December 2019 or the year ended 31 December 2018.

No acquisition-related costs, chargeable to Administrative Expenses in the Group Statement of Comprehensive Income, were therefore incurred for the year ended 31 December 2019 (2018: £nil).

32. Related parties

Group and Company

There is no ultimate controlling party of the Company as it is owned by a number of private and corporate shareholders none of whom have a controlling interest.

The following transactions were carried out with related parties:

Loan provided by related party

A non-amortising 3-year term loan for £2.5 million was provided by the EIS investor and shareholder Mr RP Little and fully drawn down on 23 December 2019. The loan is repayable on 19 December 2022, carries interest at 1-month LIBOR plus 10% and is secured by way of a fixed and floating charge over the assets of the Company. As at 31 December 2019, the amount outstanding net of transaction costs was £2,454,585 (2018: £nil) together with £6,598 of accrued interest.

The warrant is treated as an embedded derivative, distinct from its host contract (the 3-year term loan), valued at £529,459, using the Series A+ fund raise post money equity value per share and is disclosed in Other Financial Liabilities. As at 31 December 2019, amortisation of £4,352 (2018: £nil) has been recognised in the income statement.

Directors' loans

At the reporting date, the Company has extended loans to Directors in the amount of £229,500 (2018: £150,000) with a further £79,500 drawn down on 1 March 2019. Directors' Loans have a 3-year term, bear interest at the "Official Rate" set annually by HM Revenue & Customs and are collateralised by shares owned by the borrowing-director in the Company. The aggregate value of loans to any one director shall not exceed 60% of the estimated market value of the shares at the date of signing of the most recent loan agreement.

AZUR GROUP HOLDINGS LIMITED
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32. Related parties (continued)

Group and Company (continued)

Options held by the Founder

The option over 10,000 shares stapled to the interest-free loan provided by the Founder and repaid by the Company on 17 August 2018 was revalued during the year to reflect the Company's latest capital raising. A fair value of £34,838 (2018: £47,314) was determined using the Series A+ share price of £4.48 (2018: £4.7314). A credit of £12,476 (2018: charge of £38,702) was recorded in the Company's Statement of Comprehensive Income to reflect the decrease in value of the option since the previous fund raise, with an offsetting entry recorded in Other Reserves.

Group

Trading with related parties

Under the terms of a Managing General Agency Agreement ("MGAA") dated 28th June 2016, the group undertaking Azur Underwriting Limited was appointed by AIG Europe Ltd to act as its agent to administer its UK private client business, to effect renewals of that business, and to make arrangements for the provision and administration of certain new insurance business. Following a Part VII transfer as part of AIG's Brexit preparedness, the business of AIG Europe Ltd was transferred to American International Group UK Ltd (which underwrites UK risks) and AIG Europe SA (which underwrites EEA risks) and AIG Europe Ltd ceased trading. AIG American International Group UK Ltd and AIG Europe SA are subsidiaries of a significant shareholder in the Parent Company.

In order to support the services that Azur Underwriting Limited has agreed to undertake under the MGAA, American International Group UK Ltd provides certain IT and insurance operations services to Azur Underwriting Limited under the terms of a Transitional Services Agreement ("TSA") dated 1 September 2016. The fee payable under the TSA for the provision of services by American International Group UK Ltd is £1.

Azur Underwriting Limited earned £4,793,936 (2018: £3,942,422) of commissions and £365,526 (2018: £396,723) of profit commission on related party transactions of which £830,730 (2018: £622,637) of commissions and all the profit commission were outstanding at the year end.

The Group provided claims handling, insurance accounting & settlement and business introduction services to AIG Europe Ltd during the period for which it earned £45,000 none of which amount was outstanding at the reporting date (2018: £45,000).

During the year the group undertaking Aztech Advantage Limited delivered a commercial underwriting and insurance policy administration platform for Ascot US Services Company LLC, a subsidiary company of a significant shareholder in the Group. Total PaaS Development Fees of £1,262,304 (2018: £nil) were earned during the year.

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32. Related parties (continued)

Group (continued)

Key management compensation

Key management includes Directors only. The compensation paid or payable to key management for employee services to the Group is as follows:

	2019	2018
	£	£
Salaries and other short-term employee benefits	1,417,207	654,697
Post-employment benefits	48,250	30,647
	£ 1,465,457	£ 685,344

The highest-paid Director received emoluments of £240,275 (2018: £183,674) and pension contributions of £9,400 (2017: £8,313).

Company

Loans to subsidiary undertakings

Long-term cash financing is provided to subsidiary undertakings in the Group. The outstanding receivable balance is £14,493,687 as at 31 December 2019 (Note 25) (2018: £11,749,977).

During the year the Company provided £0.26 million (2018: £2.92 million) of funding under an aggregate £10 million unsecured term credit facility to the subsidiary company Aztech Advantage Limited. In addition to the existing £5 million unsecured term credit facility, repayable on 30 April 2022, the Company extended an additional £5 million unsecured term credit facility on 2 January 2019, repayable on 29 February 2024 and on the same terms as the original £5 million loan facility. Interest on both facilities is payable at 3.5% and cash settled at annual intervals.

As at 31 December 2019, £5,142,871 (2018: £4,883,894) remained outstanding together with £131,877 of accrued interest. Accrued interest of £179,497, covering the period 1 April 2019 to 31 March 2020, was cash settled on 30 April 2020.

On 25 July 2019, the Company extended an additional £5 million unsecured term loan to the subsidiary company Azuru Services Limited to supplement the existing £10 million term credit loan. During the year Azuru Services Limited drew down £2.48 million (2018: £1.3 million) of funding under the two loans. The £10 million loan is repayable on 30 April 2022, with interest payable at 3.5% to be cash-settled at annual intervals whilst the £5 million loan is repayable on 24 July 2022 and on the same terms as the original £10 million loan with the exception of the interest rate which is set at 1-month LIBOR plus 10%.

As at 31 December 2019, £9,419,550 (2018: £6,866,082) remained outstanding together with accrued interest of £229,468. Accrued interest of £312,833, covering the period 1 April 2019 to 31 March 2020, was cash settled on 30 April 2020.

AZUR GROUP HOLDINGS LIMITED
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33. Events after the reporting period

On 20 January 2020, Group companies received RDEC tax credits in the amount of £154,903.

On 21 January 2020, in light of the extension of the BREXIT deadline to 31 December 2020, the Group agreed with the Central Bank of Ireland ("CBI") to withdraw the application of the Company's subsidiary, Azur UW Finance (Ireland) Limited, for approval as a Retail Intermediary under the European Union (Insurance Distribution) Regulations 2018, notwithstanding the fact that "minded to approve" status, subject to certain conditions, had been issued by the CBI in October 2019.

On 16 March 2020, the Company's Series A+ fundraise was concluded following receipt by AIG Property Casualty International, LLC ("AIG") of approval from the Financial Conduct Authority to return to being a 20% controller. AIG were issued with 166,205 ordinary shares of £0.001 each.

On 19 March 2020, the subsidiary company Azur Underwriting Limited received profit commission in the amount of £430,247 for the period 1 December 2018 to 30 November 2019, net of the recovery of 50% of an overpayment in respect of the previous 2 years.

On 20 March 2020, a further 125,000 £2 10% Cumulative Redeemable Preference Shares were issued to AIG Property Casualty International, LLC ("AIG") for nil cash consideration in return for AIG as the sole preference shareholder permitting the Company to draw down on the £2.5MM 3-year term loan extended by the shareholder RP Little which has a fixed and floating charge over the assets of the Company.

In the week before the UK government mandated COVID-19 lock down on 23 March 2020, the Group adopted a remote-first working policy. With the depth and duration of the COVID 19 economic disruption unknown, consistent with the philosophy of "hope for the best, plan for the worst", the Directors implemented a series of cost-cutting initiatives in April 2020 to increase the business's resilience including the elimination of all discretionary expenditure, 12-month pay cuts for Executive Committee members and downsizing the office.

On 1 June 2020, recognising the potentially profound impact in both the short and long-term that COVID-19 will have on how, and how much, office space is used, the Group downsized its office moving to new premises, in the same vicinity as its previous office, at Linen Court, 10 East Road, London, N1 6AD. The new lease of Linen Court terminates on 30 November 2022.

On 16 June 2020, 99,000 shares were allotted to the Azur Group Employee Benefit Trust following the agreement of the trustee, Estera Trust (Jersey) Limited, to subscribe for shares to subsequently be used to satisfy the future exercise of employee share options granted by the Company.

On 19 June 2020 options over 238,292 ordinary shares were granted under the Enterprise Management Incentive Plan 2019 to 11 employees and options over 30,000 shares were granted under the Unapproved Option Plan 2020.

Since the year end, the subsidiary company Aztech Advantage Limited has signed a number of Statements of Work in the aggregate amount of \$1million for the enhancement and extension of its US admitted lines underwriting platforms.