

sondrel

20
22 Annual
Report



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For further information about our operations visit our website www.sondrel.com



Specialists in Complex Custom ASIC

Sondrel is a fabless semiconductor company specialising in high end, complex Application Specific Integrated Circuits (ASICs) and System on Chips (SoCs). We provide a full turnkey service in the design, prototyping, testing, packaging and production of ASICs.

Our designs have appeared in hundreds of leading edge products, including those of the market leaders in mobile phones, cameras, security systems, AR/VR systems and many more.

Mission:

By creating strong partnerships and investing in our people, we employ a mix of technology, management and consulting expertise to deliver high quality ASIC solutions that enable our customer's business success.

Vision:

- To be one of the top 3 global providers of high quality ASIC solutions in new technologies.
- To be technology innovators, whose opinions and advice are sought by customers, press and investors alike.
- To be a trustworthy and reliable partner.

Highlights

For 20 years Sondrel has been known for delivering high quality and highly complex integrated circuit designs to fabless and systems companies worldwide. As a leading provider of silicon design and manufacturing services, Sondrel partners with our customers to deliver the most innovative solutions while minimizing risk and reducing costs. Our worldclass teams provide the fastest time-to-market ASIC design & manufacturing solutions so our customers can succeed in the increasingly competitive market. Our end-to-end service offering from architectural studies through design to prototype, manufacture and qualification enables our customers' innovations to launch to market.

Our success is based on our knowledge of how to work together to get the most out of silicon, and how to get it to market reliably, on time and at the right price. Underpinning our engineering is a deep technical understanding of advanced processes and design techniques, enabling us to produce designs with the highest combination of power efficiency and performance, coupled with our unique holistic approach to unit cost management and reliability.

Strategic Objectives

We will select and invest in our processes and people so that we can consistently deliver the best services for our customers. We will define and promote our differentiating capabilities and people relentlessly

We will focus on predictable, efficient and high-quality output in everything we do

We will continually seek to add greater value with every man-hour of engineering we deliver

We will select and invest in our partners to leverage our combined capabilities to our mutual benefit

Financial Highlights

- Total revenue growth of 116%, exceeding pre pandemic levels.
- Record new orders received, with growth of over 130% YoY.
- ASIC revenues growth 313% YoY.
- ASIC revenues account for 73% of total revenues.

Operational Highlights

- Successful admission to the AIM market in October 2022 raising £20m.
- During FY22, the Group secured design wins in the automotive, Edge AI, mobile, networking, and aerospace markets. These wins are strong endorsements of Sondrel's capabilities and have helped to strengthen the Group's design pipeline for 2023 and the opportunity to scale volume deliveries beyond that.
- Extended key partner software supply relationships for a further 3 years.
- Expanded US sales operation.

Post Period Highlights

- Maiden post IPO design tape out for a leading provider of Edge AI Hardware Accelerator solution.
- Successful design tape out for a leading provider of home network devices.

Financial Highlights

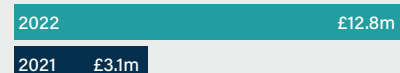
Total Revenue

£17.5m



ASIC Revenue

£12.8m



Adjusted EBITDA

£(1.1)m (see note 7 of the financial statements)



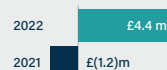
Adjusted Loss Before Tax (excl amortisation and IPO costs)

£(2.6)m (see note 7 of the financial statements)



Cash Balance

£4.4m



Net assets

£8.5m



> Strategic Report



A transitional year
of growth and
opportunity.

sondrel

Chair's Statement

➤ The Board is positive about Sondrel's outlook for the future.

Nigel Vaughan
Independent Non-Executive Chairman



Dear Shareholder

In this first Chairman's Statement since Sondrel became a publicly listed business on 21st October 2022, I would like to begin with words of thanks. Firstly, the international Sondrel team contributed so much to ensure we achieved the IPO, not just in 2022, but over the years since formation, building the company from a start-up to a highly regarded and globally recognised chip design leader. The IPO is already enabling us to attract further talent to continue to drive strong growth. The dedication of our employees no doubt played a significant role in the strong investor interest throughout the IPO process and beyond, and we welcome and appreciate the support shown by all shareholders, both before and after the IPO. The IPO has also resulted in us gaining three extremely talented NEDs whose wise counsel and business acumen is already adding great value to the company.

World events during 2022 clearly affected the business environment. However, as is usually the case with technology-based businesses, Sondrel's target market continued to invest in new designs and to plan further new products. As a consequence, Sondrel's orders increased by 137% during the year to £25.6m and sales revenue by 116% to £17.5m. We secured a number of contracts that will yield material production-based revenues, thus successfully delivering a key, strategic goal. These revenues will begin later in 2023, and will then increase in the following years. When undertaking such complex projects, customers occasionally seek changes to meet new requirements. Although all additional work undertaken is reflected in the final project revenue, such changes can result in a milestone payment slipping to the next quarter, as happened to a large automotive design in Q4 2022, totalling £4m, leading to a reduction in year-end cash to £4.4m.

As our customers are based all around the globe, Sondrel's operations have been built to optimally service the leading-edge, technological needs of those customers. Hence, 2022 saw strengthening of our teams, particularly in India and Morocco. We also ensure that our teams have a diverse and inclusive culture, for example our Moroccan team now comprises 27% female engineers. Members of these global

teams continued to deliver high quality designs and to enhance our capabilities through R&D programmes that keep us at the forefront of chip design. These programmes and the ongoing upskilling of our teams enable us to target the most advanced chip designs in growth markets such as AI, autonomous driving, networking and video processing.

The Board is mindful of its duty to consider the wider needs of society. In that context, Sondrel has a long track record of connecting with the local communities in which it operates and takes a particular interest in education. We plan to further enhance this commitment in line with the growth of the company. In addition, our expertise in power management greatly assists our customers' drive to reduce energy consumption.

The Board is positive about Sondrel's outlook for the future and is ensuring we undertake robust debates on all key operational and strategic matters to drive sustainable, long-term growth. This perspective is supported by the increased recognition by governments and businesses in diverse sectors, of the critical role advanced semiconductor designs play in the modern world. Hence, despite the current economic challenges, the Board remains confident that Sondrel's core business model and team will deliver success in the years ahead.

Nigel Vaughan
Independent Non-Executive Chairman

23 May 2023

CEO's Statement

➤ I am delighted to report that we have produced extremely strong results in all key areas

Graham Curren
Chief Executive Officer



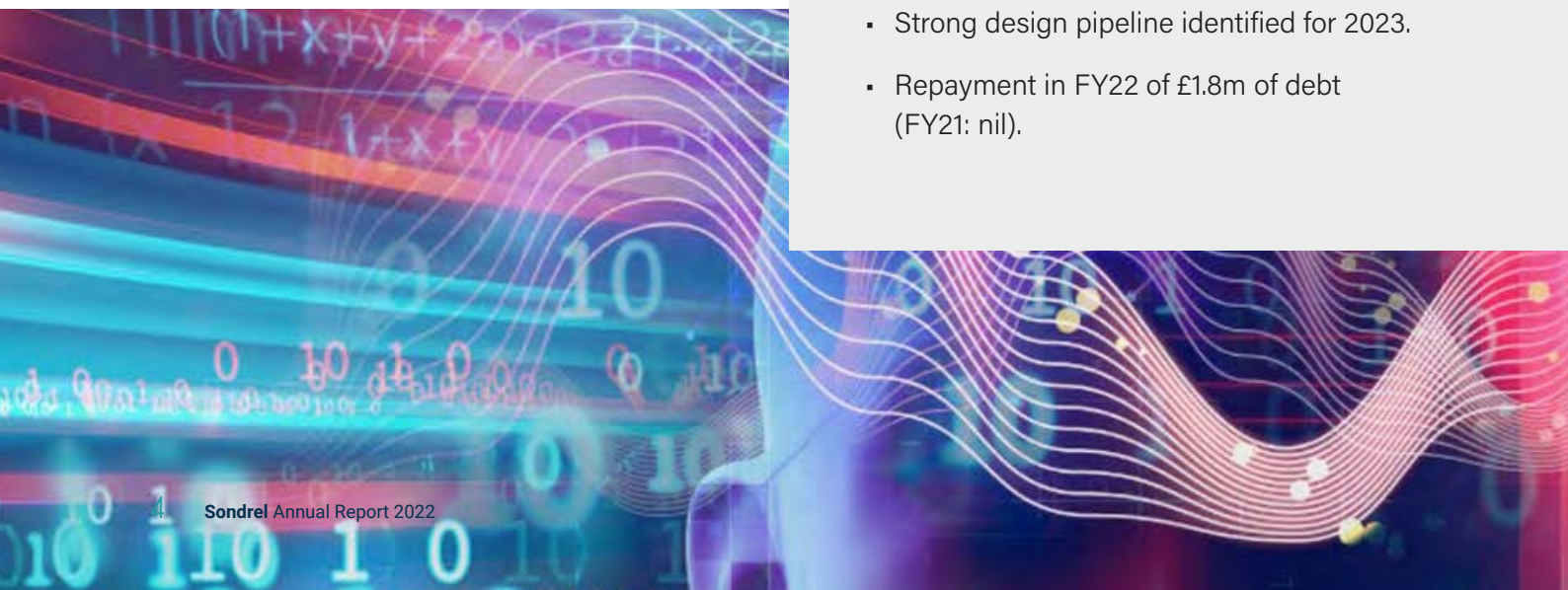
Introduction

In sharing our first set of results as a newly quoted public company, I am delighted to report that, in what has been a monumental year for our business, we have produced extremely strong results in all key areas. Not only have we made significant operational progress, we have also delivered strong growth, reflecting the underlying strength of Sondrel and our business model. Over the last 12 months, we have developed a substantial order book, coupled with a successful listing on the AIM market of the London Stock Exchange, alongside celebrating our 20th anniversary. I'm especially pleased to see such a strong adoption of our ASIC supply services by customers old and new.

Our progress has also been reflected in our financial performance across FY 2022, with revenues increasing 116% to £17.5 million (2021: £8.1 million), alongside record new orders received, with growth of over 130% YoY.

Key Highlights

- Revenue growth of 116% YoY with FY22 revenue of £17.5 million (FY21: £8.1 million).
- Record new orders received, with growth of over 130% YoY FY22 £25.6 million (FY21: £10.8 million) and providing strong visibility over FY23 revenue.
- Significant progress made both during 2022 and the start of 2023 in respect of a material turnkey ASIC engagement secured in Q2 2022 for a Tier 1 OEM Automotive customer, production for which could be significant over the life of the product.
- New design wins in line with Board expectations, delivering a strong increase in the pipeline for volume supply.
- Strong design pipeline identified for 2023.
- Repayment in FY22 of £1.8m of debt (FY21: nil).



We are focused on driving the accelerated growth of Sondrel in the coming years. Our business is built upon a small number of high value projects, executed in very close partnership with the likes of ARM, Synopsys and TSMC, and with our suppliers and customers. This approach gives me great confidence that we will be delivering excellent growth over the next couple of years, as we can see strong customer demand from new and repeat customers.

Like every company we have challenges to overcome. Technology in semiconductors moves fast so we need to invest in and accelerate our R&D programme. We need to strive harder to meet and exceed our customers' demands and we need to give our employees a great place to work. Our three goals for 2023 are to ensure robust financial management, delight all of our stakeholders (customers, employees, shareholders and partners), and to achieve operational excellence in every department. Achieving these three objectives is what drives us all forwards.

As we move into 2023, I have enjoyed getting out to see our customers and employees in remote sites in person again. There are many customers and people in the company that I have never met personally, and whilst video conferencing has made a positive contribution to much of communication, there is no substitute for in-person contact. As a distributed company, we also of course need to be aware of the carbon footprint associated with air travel so we expect to be travelling less than a few years' ago, but we still need to see people in person.

The ASIC market and its growth trajectory

Sondrel is a UK founded and headquartered fabless semiconductor business providing turnkey services in the design and delivery of complex, high end 'application specific integrated circuits' ("ASICs") and 'system on chips' ("SoCs") for leading global technology brands.

Sondrel's capabilities are provided to customers seeking competitive advantage by including customised ASIC devices enabling differentiation of their end products while addressing fast growth technology megatrends.

We are seeing an acceleration in momentum towards digital transformation, with the clear trend to use advanced processes to enable adoption of Artificial Intelligence and Machine Learning based systems. To overcome the technical hurdles of adopting these advanced processes, we foresee that major technology companies will continue to expand their chip design outsourcing in the coming years.

There are certainly headwinds facing the semiconductor industry now. The trade restrictions on China from the USA, the war in Ukraine resulting in Sondrel pulling out of Russia and losing a major customer, the political uncertainty in Israel impacting investment, and the general downturn in VC finance have all had an impact. This is however countered by strong demand from the automotive sector and the adoption of artificial intelligence into almost everything. For Sondrel this has meant a shift in some of our customers and geographical focus and is proceeding well. I am pleased with the progress that we have made, especially in the USA where we are already engaged with a number of customers with strong future silicon volume requirements. Therefore, 2023 will be an important year for us in this market.

Artificial intelligence ("AI") is the process of building and developing machines to perform tasks that historically have required human intelligence. AI is now regularly being used by individuals and is present in almost every key sector of business including healthcare, financial services, retail and transportation. Large scale use of AI can be seen in content suggestions on social media, facial and speech recognition, or text editors, with tools such as ChatGPT becoming hugely popular. The growth in the adoption of AI continues to be a tailwind for the semiconductor industry, with high performing, AI-enabled chips needed to deal with the greater capacity required for data manipulation, whilst keeping power consumption and costs under control.

According to Fortune Business Insights, the global AI market is projected to grow from US\$387 billion in 2022 to US\$1,394 billion by 2029, at a CAGR of 20.1 per cent in the forecast period. ASIC designs in advanced processes will be an important part of enabling that to happen.

Thus, we expect that business opportunities in the global ASIC market will continue, and that Sondrel's business growth will also continue. Moreover, advanced processes will continue to expand as a proportion of our sales. Through these opportunities, Sondrel provides its customers with greater added value, and effectively create competitive advantages through differentiation.

Growth strategy

We have the ambition to grow revenues to over £100 million in the medium term, by focussing on our key strengths to deliver our growth strategy.

CEO's Statement continued

Continued transition in business model

Sondrel has transitioned its business model to provide a full turnkey ASIC design and supply service for its customers, which includes contracting for the testing and production of ASICs in addition to the previously offered design and production consulting. Although the testing, packaging, and other capital intensive engineering functions necessary for production of an ASIC will continue to be outsourced to third parties, Sondrel will provide the product engineering and will manage the complex manufacturing process by engaging the various third parties directly. We believe that developing both the commercial and technical relationships with customers will enable the Group to generate significantly more revenue in the medium term, whilst remaining within the value chain throughout the ASIC production life. We expect that turnkey design and supply contracts will allow the Group to address more opportunities in parallel than has historically been the case and therefore to scale revenues more rapidly. This is due to the different elements of the production phase being subcontracted on a managed basis to specialist third party providers and foundries as well as increasing the engineering headcount.

Increase opportunities in the US and Europe

Sondrel has identified the US and Europe as key markets. We are pleased that we have very strong support from our key partners in the US with whom we are working to create valuable solutions for our mutual customers and we are focusing on growing the sales and technical support team in the US throughout 2023.

Strong relationships with key industry participants

Sondrel has established highly valuable relationships with many participants in the semiconductor industry. Sondrel is a recognised trading partner with some of the world's largest chip companies and foundries, namely:

- one of only 21 global Approved Design Partners of Arm;
- a Design Centre Alliance Partner of TSMC, the world's largest provider of advanced silicon IC's.
- one of only 3 Samsung Foundry SAFE™ Design Service Partners outside of Asia. Samsung Foundry began production of the first 3 nanometre SoC in June 2022; and
- an approved partner of Global Foundries.

These relationships, together with IP, EDA, test and packaging companies, are vital to deliver a compelling turnkey design and supply solution.

These organisations include leading OSAT organisations (such as Synergie-CAD, Amkor and ASE), IP vendors (such as Synopsys, Siemens, Arm and Arteris) and EDA vendors (such as Synopsys, Arteris and Siemens)

Sondrel's key strengths and advantages

We believe that Sondrel has several key strengths and advantages that are important to the success of the business:

1. Sondrel has already delivered designs at 5 nanometres and is now working on 3 nanometre process nodes. This level of engineering capability is limited to Sondrel and a small number of Asian competitors and positions Sondrel to benefit from the megatrends driving the increasing use of ASICs globally and the production of system solutions utilising increasingly complex design geometries.
2. Sondrel provides leading edge ASIC designs to a global customer base in advanced end markets with significant structural growth drivers including high performance computing, automotive, artificial intelligence, VR/AR, video analytics, image processing mobile networking and data centres.
3. Sondrel has a team of over 140 engineers that are located in design centres globally. This enables Sondrel to be one of only a handful of companies worldwide with the scale, capability and strength of industry relationships to deliver projects in leading technologies.
4. From concept to delivered ASICs, Sondrel is able to act as a single counterparty to its customers as a provider of a full turnkey service in the design, prototyping, testing, packaging and production of ASICs and SoCs. Sondrel is able to provide customers with the ability to de-risk the design of ASICs through the use of Sondrel's "Architecting the Future" Intellectual Property.
5. Sondrel has a clear organic growth strategy focused on increasing its engineering headcount and investing in IP development to further enhance its competitive position, accelerating its growth in key geographies including the USA and Europe.
6. Sondrel has a proven and experienced founder-led management team

Customer Activity

The group continues to have a very strong pipeline of revenue opportunities providing good visibility of future growth. Customers cover multiple markets, including major industrial OEMs, automotive suppliers, and satellite communication services.

Key contracts and progress on projects in 2022 include:

An ASIC for a leading edge AI Hardware Accelerator manufacturer. Based on production volumes and product lifetime currently projected by the Customer, revenues for Sondrel associated with the production and supply of the manufactured Project ASIC would be worth in excess of US\$20million to the Company over three years. The Project design contract was awarded to the Company in late 2021 and was fully funded by the customer. Project production and supply are expected to begin at the end of calendar year 2023.

An ASIC design for a leading provider of home network devices. The Project design contract was awarded to the Company in late 2022 and was fully funded by the Customer. The Project is estimated to be worth £1.8 million to Sondrel in 2023, which encompasses the partial design and NPI phases with a view to the ASIC entering production at the start of 2024. Based on production volumes and product lifetime currently projected by the Customer, revenues associated with the production and supply of the ASIC could be worth in excess of US\$25 million over five years.

An ASIC design for a leading provider of ASIC controller for mobile phone application. The Project design contract was awarded to the Company in early 2022 and was fully funded by the Customer. The Project encompasses the design and NPI phases with a view to the ASIC entering production at the start of 2024.

A significant project for a leading European Automotive OEM. The Project design contract was awarded to the Company in mid 2022 and is fully funded by the Customer. Contract was signed July 2022 and design work has commenced. Significant progress has been made in respect of this turnkey ASIC engagement for this Tier 1 OEM Automotive customer - with two major project milestones achieved. As stated at the time of the Group's IPO, Sondrel expects typical production volumes for each contract to deliver revenue of £10m to £100m per annum and the contract with the Tier 1 Automotive customer could deliver production revenue at the upper end of this range.

Major design service developments were undertaken during 2022 and completed designs sent for manufacture, including two advanced networking chips in 5nm FinFet Technology, a satellite communication device in 22nm, and two domain controller MCU's in 7nm for the automotive ADAS market.

Summary and Outlook

Having successfully delivered our FY22 results, I am pleased to report that the Company has started FY23 well, supported by existing contracts and ongoing new business momentum, as evidenced by our maiden post IPO design tape out for a leading provider of Edge AI Hardware Accelerator solutions in January 2023.

The Board firmly believes that the Company is well placed to continue capitalising on the sizeable growth opportunity within the semiconductor industry.

Graham Curren
Chief Executive Officer

23 May 2023

Financial Review

> I am pleased to report on a significant growth in revenue for the group, up 116% to £17.5m

Jose ("Joe") Lopez
Chief Financial Officer



Revenue

£'000	2022	2021
Consultancy	4,672	5,036
ASIC	12,839	3,082
Total	17,511	8,118

The Group has recovered strongly from the impact of the COVID-19 pandemic in 2020 and 2021 in line with the Group's successful transition into a provider of turnkey services. ASIC revenues have increased 313% to £12.8m (FY21: £3.1m) driven by one new and two existing major projects totalling £11.3m. These projects are all within the design phase moving to prototype in 2023 and going to production in later 2023, 2024 and 2025. ASIC revenues now comprise 73% of total revenues.

Consultancy revenues have decreased to £4.7m (FY21: £5.0m) as the Group focuses on developing the ASIC business for the future.

Margins

The majority of the Group's direct cost base relates to engineering headcount and software. The Group focussed on retaining engineering resources through the COVID-19 pandemic and in developing further the Group's proprietary Architecting the Future technologies in order to deliver the expected future growth in demand, which has proven to be the case.

During 2022 the revenues in the first half of the year were out of alignment with the Group's operating costs. However with revenues increasing in the second half of the year gross margins are improving and are expected to return to normal trading levels during 2023.

Administrative expenses (excluding depreciation, amortisation and exceptional items)

The underlying administrative expenses increased by 18% to £6.0m (FY21: £5.1m) driven predominantly by the increase in sales activity and the increased costs associated with a public company.

Foreign exchange

The Group had 70% (2021: 30%) of revenues invoiced in currencies other than GBP, with the Group's cost base predominantly in GBP and USD, this has historically provided a natural hedge to currency exchange risk. However during 2022 a new Euro contract led to 41% of revenues denominated in Euro and, together with the volatility of the USD during 2022, led to an exchange loss of £0.5m.

Adjusted EBITDA and Statutory Loss

Adjusted EBITDA (earnings before interest, tax, exceptional items, depreciation and amortisation) is considered by the Board to better represent the ongoing operating performance of the Group as it removes the impact of significant cash and non-cash expenditure items. Adjusted EBITDA improved to a loss of £1.1m (FY21: loss £2.5m). See note 7 to the financial statements.

Statutory loss before tax of £6.4 million (2021: Loss £5.5 million) includes significant cash and non-cash expenditure items.

These are analysed as follows:

£'000	2022	2021
Statutory loss before tax	(6,412)	(5,531)
Amortisation of intangible assets	2,385	2,155
Exceptional costs ⁽¹⁾	1,393	0
Adjusted loss before tax	(2,634)	(3,376)
Interest	1,176	521
Depreciation	394	382
Adjusted EBITDA	(1,064)	(2,473)

(1) Costs relating to the IPO which are not considered to be trading expenditure

Development costs

Under IFRS 15 development costs of £1.1m associated with the creation of mask sets that will deliver future economic benefits from production revenues were expensed to the profit and loss.



Research and development

Total expenditure on research and development in the year was £8.1m (2021: £7.1m) of which £0.4m (2021: £0.6m) was on internal research and development to increase the engineering differentiation and capability to efficiently deliver new technologies. Research & development costs of £0.2m were capitalised during the year relating to the commencement of an automotive development programme. Costs incurred relating to the development of internal process improvements are not able to be reliably measured and have therefore been expensed through the P&L.

Due to the nature of the work the Group is entitled to claim R&D tax credits. The amount recoverable this year is £1.0m (2021: £0.5m)

Exceptional items

During the year costs expensed to the profit and loss relating to the IPO were £1.4m. In addition, costs relating to the IPO of £1.8m were taken to equity.

Depreciation and amortisation

Depreciation and amortisation of £2.8m (FY21: £2.5m) principally comprises the amortisation of the intangible software assets.

Interest

The investment in the software asset has led to an additional interest charge under IFRS 16 of £0.8m in 2022.

Taxation

No provision for tax has been made in the period (FY21: £Nil) due to the available tax losses carried forward of £1.8m creating a deferred tax asset of £3.2m.

Earnings per share

Loss per share was 0.06 pence (FY21: loss per share 0.11 pence).

Dividend

The Board has determined that no dividend will be paid in the year. The Group is primarily seeking to achieve capital growth for shareholders. It is the Board's intention during the current phase of the Group's development to retain distributable profits from the business to the extent they are generated.

Balance sheet

The Group has strengthened its balance sheet position with net assets at 31 December 2022 of £8.5m (FY21: £(6.6)m).

Intangible assets

The intangible asset of £14.5m (FY21: £9.3m) arises from the recognition of long term right to use software assets and in 2022 the capitalisation of £0.2m of research and development. During 2022 an additional asset of £7.3 m was recognised securing software rights to 2025. The amortisation associated with the capitalised asset was £2.4m (FY21: £2.8m).

Cash flow and net debt

At 31 December 2022 the cash balance was £4.4m (FY21: £(1.2)m).

The Group repaid its bank debt post IPO and, at the year end a shareholder loan of £0.7m was outstanding (FY21: £2.5m). This loan was repaid post year end leaving the Group debt free.

Two significant customer milestones originally anticipated to be received in Q4 2022, totalling £4m were deferred to 2023, with £1.5m received post year end and £2.5m to be received in the next few months.

Risks and uncertainties

The Board continually assesses and monitors the key risks of the business. The key risks that could affect the Group's performance, and the factors that mitigate these risks, are set out on pages 11 to 12.

Joe Lopez

Chief Financial Officer

23 May 2023

Section 172(1) of the Companies Act 2006

Section 172(1) of the Companies Act 2006 ("S172(1)") requires Sondrel's Directors to act in good faith and in the way that they consider to be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing so, to have regard to the interests of other stakeholders. The Directors should also consider the desirability of maintaining high standards of business conduct and the likely long-term consequences of their decisions.

The Group's stakeholders include, but are not limited to, its employees; suppliers; customers; regulators; and investors.

We identify our key stakeholder groups and how we engage with each of them. Each type of engagement is designed to foster effective and mutually beneficial relationships so that we continue to work effectively with our stakeholders.

The board of directors ("the Board") of Sondrel (Holdings) plc consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members, as a whole, in decisions taken during the year ended 31 December 2022.

In doing so, the board of Directors have regard (amongst other matters) to:

A. The likely consequences of any decision in the long term:

The decision to seek additional equity funding through IPO as part of our growth strategy, has enabled the group to strengthen the business by increasing our presence in the US market to promote further growth opportunities, increase research and development to evolve its product and service offering and further differentiate it from competitors.

Focussing on every area of cost, we aspire to ensure maximum return to our shareholders.

B. The interests of the Group's employees:

We value our employees and recognise that their contribution and active engagement is key to the Group achieving its near and long-term objectives. We want our diverse teams to feel safe, valued, recognised and that their opinions matter. We want to be a great place to work, which will enable us to attract, retain and develop great talent, investing both in their future growth and that of the Group.

On a day-to-day basis, Directors engage directly with employees promoting an open, non-hierarchical culture, in which employees have an active contribution to the Group's success. Monthly "All Hands" meetings, Group updates and staff feedback questionnaires are performed, and the Board actively reflect on these when making decisions. Regular management training, internship programmes, personal development and performance reviews all contribute to the development of staff.

C. The need to foster the Group's business relationships with suppliers, customers and others:

We promote trust-based relationships with our customers. We work hard to ensure our customers return to us. We do this by demonstrating that we understand their problems and demonstrate solutions for them through our key account programme and focus closely on quality to ensure that the customer has a high regard for the Group. We value our suppliers and have strong relationships with them that enable us to maintain key component delivery and supply for our turnkey operations. We hold regular meetings with suppliers to build partnerships and trust. We manage our supplier base closely to promote levels of business that meet our quality standards and gives the supplier a chance to interact with the Group to be able to expand his business with us if it is mutually suitable.

D. The impact of the Group's operations on the community and the environment:

The Group's environmental policies recognise the protection of the environment and natural resources as one of the principal business responsibilities.

We continue to develop our focus and reporting on this aspect of our activities.

E. The desirability of the Group to maintain a reputation for high standards of business conduct:

The Board is committed to complying with all applicable regulations and provides training and monitoring across the Group to all employees to encourage and ensure compliance.

F. The need to act fairly between members of the Group:

The Company is quoted on the AIM market of the London Stock Exchange. We want all our shareholders to feel excited by the future opportunities of the Company and we want to add long term value to our shareholders through delivery of our strategic growth journey. We aim to communicate our news and updates in a transparent, open manner with all our shareholders and interact regularly with our investors through investor presentations and one-to-one meetings, regular reports and results announcements, the AGM. The Board is committed to enhance that dialogue with a developing programme of investor-related communications and events.

Joe Lopez

Chief Financial Officer

23 May 2023

Principal Risks and Uncertainties

The Group faces various risks and uncertainties that have the potential to impact the Group financially, operationally, strategically and reputationally. While it is not possible to identify or anticipate every risk, the principal risks and uncertainties faced by the Group and the steps in place to mitigate these risks are described below. The Board has overall responsibility for risk management and internal controls and is fully supported by the Audit Committee.

Project Delivery

Each customer project is unique, involving specific deliverables that the company has not previously developed. Projects are typically quoted as a fixed price based on an assessment of the work and IP required to deliver it to the customer schedule. It is possible that management may misjudge their ability to deliver at the estimated cost. Failure to do so could damage the current financials and long term reputation.

Project management is focussed on delivering to the customer schedule. By careful management of engineer utilisation the business ensures sufficient resources are available to deliver the project to schedule. A close collaboration with the customer and IP vendors permits a clear scope of work to be agreed which together with a robust change management process ensures project risks are managed appropriately.

Intellectual property

The Group relies on various types of unregistered intellectual property rights such as copyrights and designs as well as unpatented proprietary knowledge and trade secrets, to protect its business. However, these rights do not afford complete protection against third parties' claims and infringements. While IP laws are fairly harmonised around the world, certain countries' laws may not protect the Group's intellectual property rights to the same extent as afforded in the UK and the USA. Additionally, there can be no assurance that third parties will not independently develop knowledge and trade secrets that are similar to the Group's, or develop products, technology or know how that compete effectively with the Group's products and brands without infringing, misusing or otherwise violating any of the Group's intellectual property rights.

The Board cannot be certain that any of the Group's unregistered copyrights, designs or know how will provide the Group with sufficient protection from competitors, or that any intellectual property rights which the Group does hold will not be invalidated, circumvented or challenged in the future. In the event of such a challenge, the Group could incur significant costs to defend its intellectual property rights, even if it is ultimately successful.

Third parties may copy or otherwise obtain and misuse the Group's proprietary knowledge, trade secrets, designs or copyrights, or infringe or otherwise violate the Group's intellectual

property rights. Additionally, the Group may not be able to prevent current and former employees, contractors and other parties from misappropriating the Group's confidential and proprietary knowledge. Infringement, misuse or other violation of any of the Group's intellectual property rights may dilute or diminish the value and goodwill of its brand, products and services in the marketplace, which could materially and adversely affect the Group's results of operations and make it more difficult for the Group to maintain a strong market position.

The Group may from time to time become involved in claims brought by third parties companies alleging that the Group has infringed their intellectual property rights. Any litigation or adverse proceedings could result in substantial costs and diversion of resources, and, if determined adversely to the Group, could substantially harm the Group's reputation, business, results of operations and financial condition.

Mitigation

The Group has sought to protect its intellectual property by entering into non-disclosure agreements with employees, independent contractors and third parties in the ordinary course of its business, implementing and maintaining internal and external controls and processes restricting access to the intellectual property

Cyber security

The Group maintains a significant level of confidential customer data and relies on information technology systems to conduct its operations. Cyber-attacks can result from deliberate attacks or unintentional events and may include (but are not limited to) third parties gaining unauthorised access to the Group's systems for the purpose of misappropriating intellectual property or confidential sensitive information, corrupting data, or causing operational disruption.

If the Group suffers a cyber-attack, whether by a third party or insider, resulting in a breach of confidentiality or a data security breach, it may incur significant costs, suffer reputational damage and loss of customer or investor confidence.

Mitigation

The Group employs strict security protocols and policies to mitigate against any potential security breaches, including regular auditing of the Group's security environment and controls under its accredited ISO 27001 and ISO9001 standards.

Export controls

The constantly changing geopolitical environment surrounding export controls may have the ability to impact the future trading performance of the Group.

Mitigation

The imposition of export controls is not possible to anticipate, however export controls are continually closely monitored with

Principal Risks and Uncertainties *continued*

our partners to ensure the Group remains fully compliant. It is expected that the increasing variety of projects and customers will mitigate the impact of export controls.

Geopolitics

US government and military leaders have expressed increasing concern that there could be a military confrontation between the US and China centred on Taiwan. Today the company works closely with Taiwanese companies to develop new clients and is heavily reliant on fabs in Taiwan for the production of the chips it designs. There is a risk that heightened geopolitical tensions would cut the company off from its Taiwanese partners and prevent the company from fulfilling its customer contracts.

The Group maintains existing relationships with foundries located in Europe and the USA.

Customer concentration

While the Group supplies products and services to multiple customers, it depends on a limited number of large customers in any one year for a significant proportion of its revenue.

If the Group's commercial relationship with any such key customer is terminated or significantly altered for any reason, the Group's business, its results of operations and/or its financial condition could be materially adversely affected.

Mitigation

It is considered unavoidable that due to the nature of large ASIC projects and at this stage of the Group's development there may be a higher customer concentration than desired, however this is expected to reduce over time with the addition of new customers and increasing revenues.

Exchange rate fluctuations

The Group operates internationally and holds assets, incurs liabilities, generates sales and pays expenses in a variety of currencies other than GBP. The currencies that could lead to exchange rate exposure are principally the GBP, the USD\$ and the Euro.

Mitigation

The Directors believe that the structure of the Group's business offers a degree of natural hedging protection from currency fluctuations; in that any decrease in the value of revenues in a particular currency will typically be offset by a decrease in the value of costs incurred in the same currency.

The Group does not currently use any hedging instruments but to the extent that there is no natural hedge, the Board will consider the use of appropriate financial instruments such as forward contracts to mitigate any risk.

Attraction and retention of talent

The Group's ability to attract and retain key management and employees, including suitably qualified and experienced engineers, is critical to the Group's continued development and innovation. Loss of key management or other key personnel, particularly to competitors, could have adverse consequences.

The Group may not be successful in identifying and engaging suitably qualified people or inducting them into the Group, which may impact the performance of its business. In addition, the ability to attract and incentivise such individuals in the locations where the Group operates requires proportionate budgeting and therefore can affect the revenue of the Group.

Mitigation

Sondrel creates a positive and exciting workplace environment, through challenging engineering projects, training, regular engagement and feedback, rewards and values.

The Remuneration Committee seeks to ensure that rewards correspond with performance and retention and is in the process of setting up an employee share based incentive plan.

Growth strategies and management

The Group's growth plans may place a significant strain on its management and operational, financial and personnel resources. Further, the ability of the Group to implement its strategy requires effective planning and management control systems. Therefore, the Group's future growth and prospects may depend in part on its ability to manage this growth. There can be no guarantee that the Group will achieve or effectively manage the level of success that the Board expect..

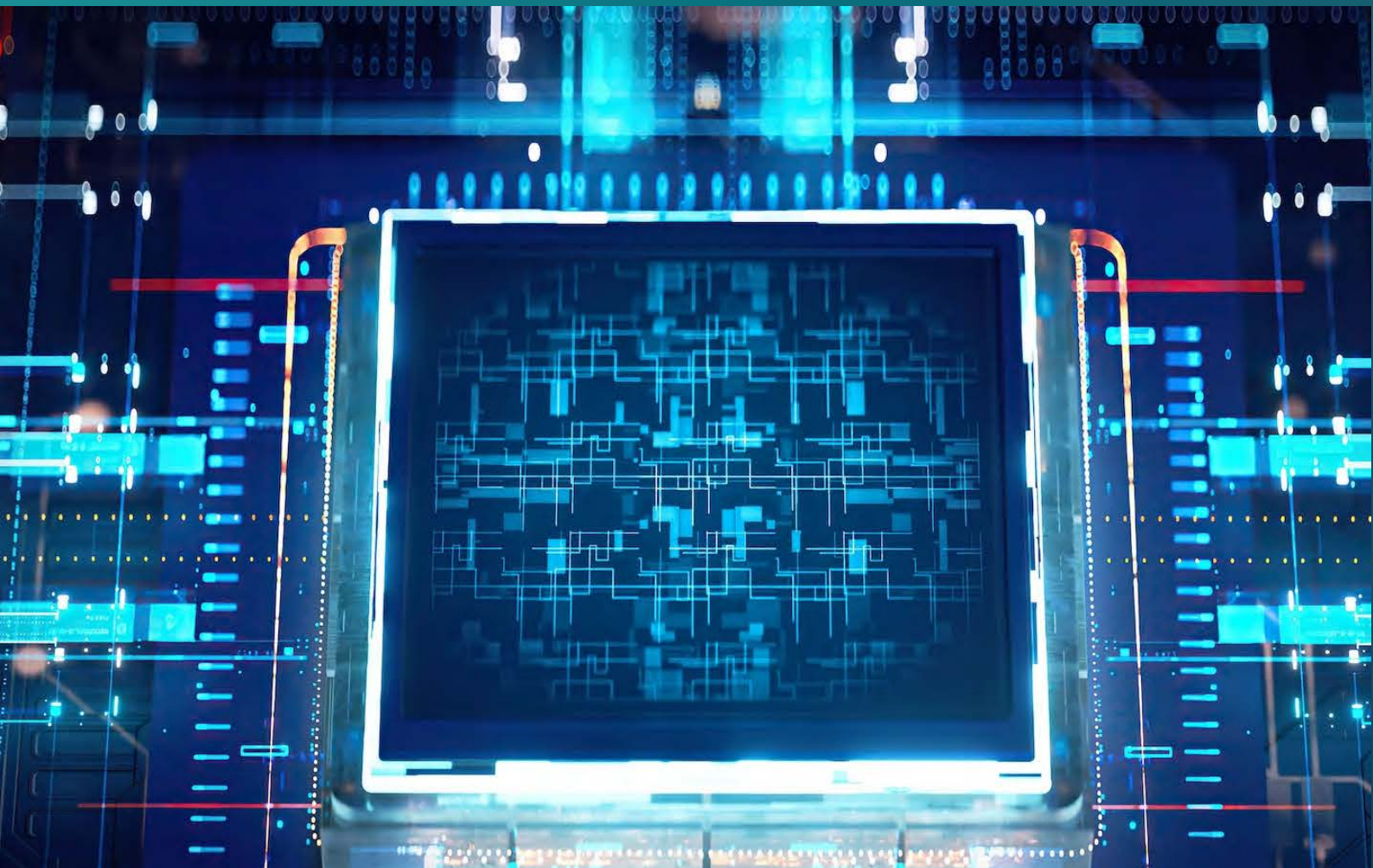
Mitigation

The Group's growth strategy is centered around growing in established markets and targeting sectors in which we have strong credibility.

There is clear communication of strategy and alignment throughout the organisation, with the Board responsible for delivering against defined strategic initiatives. The Group's growth and expansion strategy is carefully budgeted and resourced for, with clear metrics for success.

Customer success is an integral part of the Group's focus, with regular reviews of performance with the customer to ensure alignment with customer's strategic imperatives in order to secure account retention.

> Corporate Governance



sondrel

Board of Directors



Nigel Vaughan
Independent Non-Executive Chairman

Nigel joined the board of Sondrel in 2011. He has 30 years of international Board level experience acting for businesses in both an executive and non-executive capacity. He has held Board level positions in businesses of varying sizes, including UK plcs and US multinationals, and he also built an early-stage business, Sifam Ltd., that was sold for US\$100 million after 7 years.

He most recently acted as non-executive director of Quantex-Arc Limited between 2018 and 2021. In addition to founding and owning a management consulting business, Vaughan Management Solutions Limited, Nigel currently also acts as Chairman to the Global Advisory Board of the Walsn Group.



Graham Curren
Chief Executive Officer

Graham founded Sondrel in 2002 after identifying a gap in the market for an international company specialising in complex digital IC design.

Prior to establishing Sondrel, Graham graduated in Electronic Engineering from Leeds University and worked in both ASIC design and manufacturing before joining electronic design automation ("EDA") company, Avant! Corporation. There, he managed the technical and marketing teams across EMEA, supporting products across the whole range of IC design.

In 2010, Graham accompanied the UK prime minister at the time, David Cameron, in his business delegation to China. He also acted as a non-executive director for the China-Britain Business Council between 2011 and 2017.



Jose ("Joe") Lopez
Chief Financial Officer

Joe joined Sondrel in April 2019. His career began as a Business Services Manager for Grant Thornton LLP between 1993 and 1999 where he qualified as a Chartered Accountant.

After leaving Grant Thornton, Joe worked in a variety of directorship roles and has over 12 years' experience as a Chief Financial Officer, ranging from start-ups to corporate multi nationals. Prior to joining Sondrel, Joe was Finance Director of ShopperTrak Limited, a provider of data analytics aimed at helping retailers improve their in-store customer experience, between 2012 and 2017, before joining Airways Aviation Academy Limited as Chief Financial Officer for two years.



Adrian Carey
Independent Non-Executive Director

Adrian has more than 35 years of board experience across listed, AIM, private equity, venture backed and private businesses, primarily in the technology, legal and educational service sectors. Adrian acted as CEO for three companies over a 17 year period, prior to which he was a finance director, venture capitalist and Chartered Accountant. He most recently acted as Executive Chairman for AIM listed Melorio plc before being appointed as a non-executive director until it was bought by Pearson plc in June 2010.

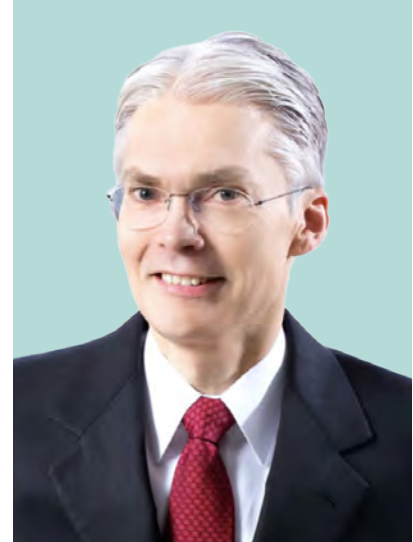
Adrian has had significant additional non-executive experience, including acting as a non-executive director for Impellam Group and, more recently, Oxford Metrics plc, both quoted on AIM. He currently acts as a non-executive director for Blacktrace Holdings Limited.



Sherry Madera
Independent Non-Executive Director

Sherry is currently Mastercard's Senior Vice President of Global Public Policy and Government Affairs. A Canadian and British national, Sherry joined Mastercard from the London Stock Exchange Group where she held the position of Chief Industry & Government Affairs Officer. She has also worked for the City of London Corporation where she was Economic Ambassador and Special Advisor to Asia, and also acted as a Minister-Counsellor at the British Embassy in Beijing, responsible for promoting trade and investment between the UK and China.

Recognised as an expert on green and sustainable finance as well as on data policy, Sherry continues to hold the role of Chair of the Future of Sustainable Data Alliance, a global alliance dedicated to working with the financial industry to use data to build a sustainable future.



Gordon Orr
Independent Non-Executive Director

Gordon currently acts as a Senior Advisor to management consultancy firm, McKinsey & Company, having previously acted as Chairman of its Asia division. Gordon also sits on the boards of Chinese multinational technology company, Lenovo Group Limited, and conglomerate, Swire Pacific Limited. In addition, he works with the CEO's of a number of China's globalising companies, is an advisor to Oxford University and Harvard Business School in Asia and is a Board Member of the China Britain Business Council.

Gordon spent the majority of his career at McKinsey & Company having joined in 1986. He opened McKinsey's Beijing office in the early 1990s and led its Greater China practice for many years and McKinsey Asia between 2009 and 2014. Gordon was on McKinsey's global board of directors between 2003 and 2015 with responsibilities for Asia, Governance and Risk, before retiring from the firm.

Corporate Governance Statement

On behalf of the Board of Directors, I am pleased to introduce the Company's Corporate Governance Statement for the year ended 31 December 2022.

Introduction

This statement of the report sets out Sondrels' approach to corporate governance and intends to provide information on how the Board and its Committees operate. As a Board, we take corporate governance very seriously, and I will continue to ensure that we maintain high standards throughout my tenure.

As a company whose shares are traded on the AIM market of the London Stock Exchange, Sondrel has chosen to monitor and report its compliance with the Quoted Companies Alliance ('QCA') Corporate Governance Code ('the Code') and its Statement of Compliance with the same can be found with information on governance arrangements on the Company website (<https://ir.sondrel.com/investors/corporate-governance>).

Further information is provided in the table below.

This report seeks to inform shareholders about how it complies with the QCA Code, and where it departs from the QCA Code the Board will provide an explanation of the reason(s) for doing so.

The Role of the Board

The Board is collectively responsible for Sondrels' performance and creating value for shareholders. The Board meets as often as required to effectively conduct its business. The Board is responsible for overseeing the management of the Group and approving the strategic direction.

Composition of the Board and Meetings

The Board comprises of four independent Non-Executive Directors reflecting a blend of different experiences and backgrounds. The Board believes that the current composition of the Board brings a desirable range of skills and experience, while simultaneously ensuring that no individual or group can dominate the Board's decision making.

The structure of the Board is designed to ensure that the Board focuses on the strategic direction of the Group, monitoring its performance, governance, risk and control issues.

The Board has an established schedule of meetings throughout the year, with additional meetings convened when required. The Board addresses several recurring items at each Board meeting, including operational and financial performance updates and acquisitions. The Directors maintain a dialogue between Board meetings on a variety of matters.

The table below sets out the Directors' attendance at scheduled Board meetings during the period ended 31 December 2022, against the number of meetings each Board member was eligible to attend:

Director	Board Meetings
Nigel Vaughan	2/2
Graham Curren	2/2
Joe Lopez	2/2
Adrian Carey	2/2
Sherry Madera	2/2
Gordon Orr	2/2

Board Committees

The Board delegates certain responsibilities to its Committees, so that it can operate efficiently and give an appropriate level of attention and consideration to relevant matters. The Company has an Audit & Risk Committee and a Remuneration Committee, both of which operate within a scope and remit defined by specific terms of reference determined by the Board.

Details of the operation of the Board Committees are set out in their respective reports. All of the Board Committees are authorised to obtain, at the Company's expense, professional advice on any matter within their Terms of Reference and to have access to sufficient resources in order to carry out their duties.

No nomination committee has been established. Instead, decision-making on matters of nomination and succession will be retained with the Board as a whole. This approach is considered appropriate considering the size of the Board and is believed to enable all Board members to take an active involvement in the consideration of Board candidates and to support the Chair in matters of nomination and succession.

The QCA Corporate Governance Code 2018 ("QCA Code")

The Board is collectively responsible to shareholders of the Company for the effective oversight and long-term success of the Company. The Board believes that sound governance is fundamental to this and has chosen to follow the QCA Corporate Governance Code. The Board considers that the policies, procedures and relevant systems which have been implemented to date have given us a firm foundation for our governance structure.

During the financial year ended 31 December 2022, the Company believes that it has complied with 9 of the 10 principles set out within the QCA Code, point 7 will be addressed during 2023, as follows:

Principles of the QCA Code	How the Company has complied
1 Establish a strategy and business model which promote long-term value for shareholders.	The Board has collective responsibility for setting the strategic aims and objectives of the Group. Our strategy is articulated within the CEO report.
2 Seek to understand and meet shareholder needs and expectations.	We encourage all our shareholders to attend our AGM, which provides a forum and time for shareholders' questions and open discussions. The Chief Executive Officer and Chief Financial Officer actively engage with shareholders.
3 Take into account wider stakeholder and social responsibilities, and their implications for long-term success.	The Company has adopted policies to encourage an open and transparent corporate culture, including policies addressing anti-bribery and whistleblowing. We continue to adopt new policies and monitor existing policies on an ongoing basis.
4 Embed effective risk management, considering both opportunities and threats, throughout the organisation.	Details of the principal risks and uncertainties which the Board considers to be associated with the Group's activities, together with the mitigating actions which are being pursued in relation to them, are set out on page 11 to 12 ▶ . The Board reviews the risks faced and ensures the mitigation strategies in place are the most effective and appropriate to the Group's operations.
5 Maintain the Board as a well-functioning, balanced team led by the Chairman.	Due to the proximity of the IPO to the year end a formal assessment has not yet taken place, however the chairman monitors the team on an ongoing basis.
6 Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.	The Directors have the necessary up-to-date experience, skills and capabilities required for the Board and to oversee the management of the Company. The biographies of the Directors are set out on pages 14 to 15.
7 Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.	As the Board was formed in October 2022 the Board has not yet undertaken an evaluation review, however, a formal evaluation will take place during the 2023 financial year.
8 Promote a corporate culture that is based on ethical values and behaviours.	All appointments to the Board will be on merit, but with due consideration to the need for diversity on the Board. Such appointments will be made to complement the existing balance of skills and experience on the Board.
9 Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.	To enable the Board to discharge its duties, the Directors receive appropriate and timely information. A formal agenda and briefing papers are distributed to the Directors in advance of each Board meeting. The Directors have access to the advice and services of the Chief Financial Officer and Company Secretary, who is responsible for ensuring that the Board procedures are followed, and that applicable rules and regulations are complied with.
10 Communicate how the Company is governed and is performing.	The Board maintains a dialogue with shareholders and other relevant stakeholders and will continue to monitor its application of the QCA Code and revise its governance framework as appropriate as the Group evolves.

Nigel Vaughan

Independent Non-Executive Chairman

23 May 2023

Audit Committee Report

As Chair and on behalf of the Audit Committee, I am pleased to present our report for the financial year ended 31 December 2022.

The Committee

The Committee was formed on the admission of Sondrel (Holdings) plc to AIM in October 2022 and comprises Adrian Carey and Gordon Orr who are both Non-Executive Directors.

Main Responsibilities

The Committee's role is to provide support to the Board in meeting its responsibilities as set out in the QCA code. The full list of duties of the Audit Committee is set out in the terms of reference, and includes monitoring:

- the integrity of the financial statements and other financial information of the Company and its subsidiaries (Group) provided to the Company's shareholders;
- the Group's system of internal controls and risk management;
- the external audit process and auditors;
- the processes for compliance with laws, regulations and ethical codes of practice; and
- how risk is reported internally and externally.

Risk management and internal control

The Committee has primary responsibility for the oversight of the Group's internal controls, including the risk management framework. Management is responsible for establishing and maintaining adequate internal controls and the Committee has responsibility for monitoring the effectiveness of these controls. It achieves this through reports received from the Group, along with those from the external auditors. Risk registers are maintained and regularly reviewed by management.

It is the Committee's assessment that the processes applied by management to ensure that the internal controls systems are functioning as intended are providing sufficient and objective assurance. As a result, the Committee's view is that there remains no current requirement for an internal audit function.

Financial reporting

The Committee has reviewed with both management and the external auditor the annual financial statements, focussing on: the overall truth and fairness of the results and financial position, including the clarity of disclosures shown in the statements and their compliance with best-practice requirements; the appropriateness of the accounting policies and practices used in arriving at those results; the resolution of significant accounting judgements or of matters raised by the external auditor during the course of the annual statutory audit; and the quality of the Annual Report and Accounts taken as a whole, including disclosures on governance, strategy, risks and remuneration, and whether it gives a fair, balanced and understandable picture of the Group.

Going concern

The Committee reviewed management's paper on going concern. The Committee assessed and challenged the Group's forecasts and cash flow projections, including consideration of various possible outcomes of future performance and the potential impact of uncertainties.

The Committee also considered the Group's financing facilities and future funding plans. Based on this, the Committee is satisfied that the financial statements should be prepared on a going concern basis.

Significant matters considered in relation to the financial statements

During the year ended 31 December 2022, the Committee's prime areas of focus were:

- The integrity, completeness and consistency of financial reporting, including the adequacy, clarity and appropriateness of disclosures. This included reviewing the Annual Report and concluding that it was fair, balanced and understandable.
- The scope and programme of external audit.
- The materiality level used by the external auditor for Sondrel as a public company.
- Confirmation that the going concern basis of accounting should continue to apply in the preparation of the annual financial statements.
- Reviewing the processes and systems to identify and mitigate the financial and non-financial risks and to consider the appropriateness of the controls to reduce the risk of fraud and exposure to bribery and corruption.

- The areas where significant judgements and estimates are required, however not previously mentioned in the financial statements were as follows:
 - **Revenue Recognition**
The policies adopted are set out for Revenue Recognition in Note 2 of the Accounting Policies and are in line with the requirements of IFRS 15. For Services and Consultancy when the outcome of a contract can be measured reliably, the Group recognises both income and costs by reference to the percentage of completion of the contract as this is considered the most appropriate measurement of performance of the obligations. The Committee have identified revenue recognition as a significant issue. It was agreed that revenue recognition would be a key area of focus for the Auditors. The committee has acted to ensure the company has adopted appropriate controls, policies and procedures to ensure inclusion of the revenues in compliance with IFRS 15. The Company has adopted the correct controls, policies and procedures to ensure inclusion of the revenues in compliance with IFRS 15.
 - **Capitalisation of intangible assets**
The Committee acknowledged that the accounting treatment is an ongoing focus by the Auditors due to its materiality. The accounting policies were reviewed and the Committee was satisfied that the processes and procedures in regard to the capitalisation were appropriate.
 - **Treatment of IPO costs**
The Committee reviewed the decision made by the executive directors of how to split the costs incurred on an equity raise via IPO. The Committee agreed that the judgement, whilst costs incurred on an equity raise should be recognised against equity in share premium, costs that relate to a stock market listing should be recognised as an expense in the consolidated statement of comprehensive income, was appropriate.

Independent auditor

The Committee's primary responsibility is to make a recommendation on the appointment, reappointment and/or removal of the external auditor. The Committee considers a number of areas when reviewing the external auditor appointment, namely the auditor's performance in discharging the audit, the scope of the audit and terms of engagement, auditor independence and objectivity, criteria for auditor reappointment, and auditor remuneration. Every year the Committee assesses the effectiveness of the audit process and the external auditor.

In carrying out its assessment for the financial year 2022 it considered:

- The independence and objectivity of the external auditor.
- Feedback from the Chief Financial Officer and his team, who monitor the external auditor's performance, behaviour and effectiveness during the exercise of its duties.
- All key external auditor plans and reports, which were discussed and challenged.
- The regular engagement with the external auditor during Committee meetings and ad-hoc meetings, including meetings without any member of management being present.
- How the auditors support the work of the Committee and how the audit contributes insights and adds value.

The Committee also reviewed the proposed audit fee and terms of engagement for the financial year 2022. Details of the fees paid to the external auditor during the financial year can be found in note 10 on page 62 [▶](#). The Committee recognises that the independence of the external auditor is an essential part of the audit framework and the assurance that it provides. The external auditor confirms its independence at least annually.

This year, having considered the effectiveness and performance of the independent auditor, the Committee has recommended to the Board the appointment of CLA Evelyn Partners Limited as independent auditor of the Company and Group for the next financial year.

Approval

This report was approved by the Committee, on behalf of the Board, and signed on its behalf by:

Adrian Carey

Chair of the Audit Committee

23 May 2023

Remuneration Committee Report

As Chair of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2022.

The Committee

The Remuneration Committee was formed on the admission of Sondrel to AIM in October 2022 and comprises Sherry Madera (Chair), Nigel Vaughan and Adrian Carey, who are all independent Non-Executive Directors.

Main responsibilities

The full list of duties of the Remuneration Committee is set out in the terms of reference and includes the following areas:

- To review and update as necessary the Committee's Terms and References
- Overseeing the policy and individual remuneration for the senior management of the Group, including approving the remuneration for the Executive Directors, and to support the Group's executives in their review of the Group's remuneration and employment policies for the senior management and employees
- Ensuring that remuneration arrangements are monitored and aligned to support the Group strategy and exhibit effective risk management, as well as encourage and reward the right behaviours, values, and culture of the Group.
- Oversee the design of all share incentive plans and review their implementation Group-wide, alongside other tools used for incentivisation and retention of talent. Annually, the Remuneration Committee will approve share incentive awards and agree any performance targets to be set for the Executive Directors.

Our aim as a Remuneration Committee, through delegated responsibility, is to determine the policy for the Executive Directors remuneration in accordance with the QCA Corporate Governance Code (QCA Code) and in the best interests of the business aligned with our strategic goals. The remuneration of Non-Executive Directors is a matter for the Chair and the executive members of the Board. No Director will be involved in any decision as to his or her own remuneration.

Further to this, the Committee will support, oversee and approve the recommendations of Group management regarding share based incentive schemes and strategy for talent acquisition, development and retention.

Executive directors' and key employee remuneration policy

In determining an appropriate remuneration policy, the Committee will take into account the following principles:

- The policy should be designed to attract, retain, and motivate high calibre individuals.
- The remuneration policy shall bear in mind the Group's appetite for risk and be aligned to the Group's long-term strategic goals.
- A significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance and be designed to promote the long-term success of the Group.
- Take into account the pay and employment conditions across the Company and the wider group, especially when determining salary increases.
- The Committee shall review the ongoing appropriateness and relevance of the remuneration policy.
- Share ownership should be encouraged across the executive team to ensure a long-term focus and alignment of interest with shareholders.
- The Committee shall obtain reliable, up-to-date information about remuneration in other companies of comparable scale.

Committee activities during 2022

During the financial year ended 31 December 2022 the Remuneration Committee has met once with full attendance. During this initial meeting, the Committee undertook a review of the Committee's Terms of Reference and agreed it was fit for purpose.

Directors' bonus payments

The approval of the bonus payments for the financial year ended 31 December 2022 was based on the successful delivery of key milestones and strategic progress. The details of these payments are set out in the following report.

Share-based schemes

The Remuneration Committee has set into motion the creation of a share options scheme to be created in accordance with the AIM rules and will be guided by industry best practice. The Committee has taken appropriate care to consider all of the Group's employees including those resident outside the UK in initiating this work. The share incentive plan will be subject to Board approval.

Directors' Service Agreements

Executive directors' service agreements

The Remuneration Committee is responsible for approving the terms of the service contracts for Executive Directors. Directors' service contracts are available for inspection at the Company's registered office.

The Executive Directors have entered into a service agreement with the Company. Each Director's appointment will be terminable on six months' notice given by either party and summarily by the Company in certain limited circumstances. Each Director has given certain non-compete and non-solicitation undertakings which will apply during his engagement and in respect of the period of 6 months post termination.

Non-Executive director letters of appointment

All Non-Executive Directors have letters of appointment, initially for a three year period from Admission to AIM in October 2022.

Each Director's appointment will be terminable on three months' notice given by either party and summarily by the Company in certain limited circumstances.

The Non-Executive Directors' letters of appointment do not provide specifically for any termination payments, although the Group might make payments in lieu of notice.

Non-Executive Director fees are determined by the Executive Directors, having regard to the requirement to attract high-calibre individuals with the right experience, the time requirements and the responsibilities incumbent on an individual acting as a Non-Executive Director. Post IPO the Non-Executive Directors are not eligible for annual discretionary bonuses and do not participate in the Group's long-term incentive plans.

In addition to responsibilities in their role as Non-Executive Director, Adrian Carey and Sherry Madera have been appointed as Chairs of the Audit & Risk Committee and the Remuneration Committee respectively. Nigel Vaughan has been appointed Chair of the Board.

Remuneration Committee Report **continued**

Directors' remuneration

The remuneration of each of the Directors during the year ended 31 December 2022 has been audited as part of the financial statements and is set out in detail below:

Executive Directors	Salary	Bonus	Pension	BIK	Total
Graham Curren	255,000	100,000	-	1,574	356,574
Joe Lopez	142,800	40,000	14,284	-	197,084

Non Executive Directors	Salary	Bonus	Pension	BIK	Total
Nigel Vaughan	22,658	9,999	-	-	32,657
Adrian Carey	9,295	-	-	-	9,295
Sherry Madera	9,295	-	-	-	9,295
Gordon Orr	7,436	-	-	-	7,436

Directors' share interest

	Holding at 31 December 2022	Percentage of share capital	Holding at 31 December 2021	Percentage of share capital
Executive				
Graham Curren	39,253,866	44.88%	39,253,866	78.40%
Non Executive				
Nigel Vaughan	1,001,370	1.14%	1,001,370	2.00%
Adrian Carey	90,500	0.10%	-	-
Sherry Madera	45,000	0.05%	-	-
Gordon Orr	318,000	0.36%	-	-

Directors' share options

	Number	Exercise Price	Grant Date	Expiry Date
Joe Lopez	900,000	£0.25	2019	2029

Summary

The Remuneration Committee believes that the current remuneration arrangements and plans are in the best interest of the Group and shareholders to deliver success over the long term. The Committee will continue to monitor the appropriateness of the remuneration strategy and will make adjustments with a responsible and transparent approach.

Sherry Madera

Chair of the Remuneration Committee

23 May 2023

Director's Report

Principal Activities

Sondrel is a UK founded and headquartered fabless semiconductor business providing turnkey services in the design and delivery of complex, high end 'application specific integrated circuits' ("ASICs") and 'system on chips' ("SoCs") for leading global technology brands.

The Directors have set out their update on strategy within the CEO and CFO reports, and that includes a review of the markets that the Group is addressing, as well as the actions being taken to meet the strategic goals of the Group.

The following information is provided in the Strategic Report and is incorporated into the Directors' Report by way of reference:

- **Likely future developments in the business** – this is disclosed in the CEO's statement on pages 4 to 7 [▶](#)
- **Research & development activities** – this is disclosed in the CFO's report on page 9 [▶](#)
- **Going Concern** – Audit Committee Report on page 18 [▶](#)

Directors and their interests

The following individuals served as Directors within the 2022 financial year:

- Graham Curren – CEO
- Joe Lopez – CFO
- Nigel Vaughan – Non-Executive chair
- Adrian Carey - Non-Executive director
- Sherry Madera – Non-Executive director
- Gordon Orr – Non-Executive director

Directors' interests and shareholdings are contained within the Remuneration Report on pages 20 to 22 [▶](#).

Dividends

No dividends have been recommended by Directors or paid to shareholders in this or the previous financial year.

Auditors and their independence

In accordance with the Company's articles, a resolution proposing that CLA Evelyn Partners Limited be reappointed as auditor of the Company and the Group will be proposed at the AGM. The Company has a policy for approval by the Audit Committee of non-audit services by the auditor to preserve independence.

Disclosure to external auditor

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

Directors' indemnities

The Group maintains appropriate Directors' and Officers' insurance and has done so from the date of admission. This remains in force as at the date of this report.

Donations

The Group did not make charitable or political donations during the year.

Employees

The Group operates an equal opportunities policy which includes those who are classed as disabled. Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. Individuals who identify as disabled are given equal opportunities with other employees in relation to training, development and promotion.

Health, safety, the environment and the community

The Group is committed to being of benefit to the communities it serves across the globe. This is explained in our ESG Report starting on page 25 [▶](#).

Director's Report continued

Share capital

Details of the authorised and issued share capital of the Company and options over shares of the Company are set out in notes 27 and 28 to the financial statements.

Annual General Meeting

The Company's Annual General Meeting will be held at the offices of Cenkos Securities, 6.78 Tokenhouse Yard, London EC2R 7AS on 27 June 2023 at 1pm.

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare group and company financial statements for each financial year. Under that law the Directors have elected to prepare the group and parent financial statements in accordance with UK-adopted International Accounting Standards. Under company law the directors must not approve the financial statements unless they are of the group and of the profit and 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 judgements and accounting estimates that are reasonable and prudent.
- State whether international accounting standards have been followed subject to any material departures disclosed and explained in the financial statements: and
- Prepare the financial statements on a 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 company and the group and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Matters covered elsewhere

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium Sized Companies and Company's (Accounts and Reports) Regulations 2008 certain matters that are required to be disclosed in the Directors' Report have been omitted as they have been included in either the Chief Executive's Review the Chief Financial Officer's Review, or the Principal Risks and Uncertainties Report. These matters relate to the business review, principal risks and uncertainties, key performance indicators, future developments and research and development activity.

By order of the Board

Joe Lopez

Director and Group CFO

23 May 2023

ESG Report

The board recognises that success cannot be at the expense of the environment, its employees or wider society.

Governance has been the lead focus of its ESG strategy but following the climate emergency and major societal upheavals caused by the Covid-19 pandemic, environmental and social sustainability actions are rightly being brought to the fore.

Ethics And Compliance (see Governance Report)

Environmental sustainability

The Group has an emphasis on environmental sustainability. We make it a responsibility of all employees to take advantage of our initiatives to reduce carbon footprint.

Our direct carbon footprint (Scope one emissions) primarily includes power usage for the IT equipment which we use to provide services and host ongoing work. We will be reviewing our emissions to have a more accurate view of our Scope 2 and Scope 3 impacts.

Our business methodology has decreased the use of paper many years ago and we continue to operate a virtually paper free office. All our premises are designed or redesigned to ensure that energy usage at our facilities is optimised. We will be implementing best in class policies for waste reduction and water usage.

Employees

Responsible business practices are engrained within Sondrel's culture, and in addition to the board's continuing commitment to develop the Group's environmental, social and governance framework, the Board recognises that its workforce is essential to delivery of its growth strategy.

Sondrel invests in the entire employee journey to ensure that material social issues are identified and addressed.

The group has a dedicated and global internal recruitment team that has designed a bespoke screening process to hire suitable candidates to meet current and near-term skillset requirements. The training and development of all employees is essential to maintaining Sondrel's position with the market, meeting the requirements of customers and to retaining personnel.

Code of Professional Conduct

We are committed to acting professionally, fairly and with integrity in all our business dealings and relationships.

Sondrel's Code of Professional Conduct sets out the values and standards of behaviour expected from all employees and also deals with how employees and business partners can report any concerns that may arise. The Code promotes corporate social responsibility across the business. It sets out the responsibilities of employees in ensuring that they carry out their business activities in a manner aligned with the Group's values and business principles. All staff are required to ensure that they comply with all relevant laws and regulations. The Code sets out behaviours that are unacceptable and which could bring Sondrel's reputation into disrepute. It contains guidance on avoiding conflicts of interest, confidentiality, our approach to gifts and hospitality, bribery and corruption.

Upholding the Code is the responsibility of all Sondrel employees. All those working for, or on behalf of, Sondrel are required to confirm that they have read and understood the Code of Professional Conduct, and a copy is readily available to all employees.

Anti-corruption and Anti-bribery policy

The Group has a robust anti-corruption and anti-bribery policy which applies to the Board, all employees of the Group and persons associated with the Group (such as consultants, contractors or agency staff). The Group's anti-corruption and anti-bribery policy requires such persons to observe and uphold a zero-tolerance position on bribery and corruption, as well as providing guidance on how to recognise and deal with bribery and corruption issues and their potential consequences, while preserving acceptable boundaries of corporate hospitality and entertainment. The Group expects all employees and persons associated with the Group to conduct their day-to-day business activities in a fair, honest and ethical manner; to be aware of, and refer to, this policy in all of their business activities worldwide; and to conduct business on the Group's behalf in compliance with it. Management at all levels are responsible for ensuring that those reporting to them, internally and externally, are made aware of and understand this policy.

ESG Report continued

Dealings with customers

We work closely with customers and prospects to help us improve the value that we can add to their businesses through our services and in the manner that these services are delivered.

We are open and honest about our services, communicating with customers all appropriate information that they need in order to ensure that we consistently meet their expectations;

We seek regular feedback from our customers as to our performance against their expectations and against the benchmark performance of our competitors, so as to help us to continue to deliver continuous and sustained improvement;

We ensure that any issues or problems are dealt with in a timely manner, openly, efficiently and with fairness.

Dealings with suppliers

Sondrel operates under the fabless semiconductor model and provides an end-to-end service for development, production and supply of ASICs. We recognise that we cannot deliver our products and services without a functioning and sustainable supply chain. We work with our suppliers to improve the value of the products and services that they deliver to us and thereby to improve the value of the products and services that we offer to our customers. We identify and select suppliers to work in partnership with Sondrel using fair and reasonable methods. We identify and work only with suppliers who operate to ethical business standards. We therefore encourage our suppliers to be ready to support us with the Environmental performance metrics and improvement programmes required by our customers.

Our relationships with our employees

Our people are key to our success. Sondrel recognises the vital role that our employees play, and that effective teamwork is critical to achieving our corporate goals. We ensure that our employment practices are fair and in full compliance with local employment legislation. We strive to make Sondrel a “great place to work” where our actions demonstrate this via values that the team deliver each and every day. We maintain equality of opportunity in all employment practices, policies and procedures regardless of race, nationality, gender, age, marital status, sexual orientation, disability and religious or political beliefs. We recognise the importance of a healthy age balance within the business and maintain succession plans for all business units, identifying and investing in future leaders.

We continue to invest in recruiting graduates. The full circle of feedback is also supported by our annual employee survey which covers all aspects of life within the Sondrel group and is discussed at quarterly staff meetings alongside business performance and future plans.

Confidentiality

Our Code of Professional Conduct emphasises the need for confidentiality to be maintained in all of our business activities. Our policy and practices help to ensure that all staff understand what constitutes confidential information and restricts internal access based on a “need to know basis”. Information relating to third parties is not disclosed without the third parties’ written consent.

Bribery Act

We implement and enforce effective systems to uphold our zero tolerance approach to bribery and corruption. To ensure that we only work with third parties whose standards are consistent with our own, all third parties who act on behalf of Sondrel are obliged by written agreement to comply with the standards set out in the Code.

Health and Safety

Sondrel places health and safety at the core of all business activities in order to ensure a safe working environment for everyone involved in the business. As a cornerstone of our business operations Health and Safety reporting is a standing item on the local management team meetings.

Training sessions for all employees are undertaken on commencement, including DSE Training and Workstation Assessment.

All employees are encouraged to take an active role in ensuring that our working environment is a safe place to work and visit by:

- behaving in such a way as to avoid incidents and agreeing to adhere to the Group’s policies and procedures;
- actively reporting all safety observations and incidents;
- being involved in safety audits and risk assessments; and
- undertaking regular awareness training sessions.

> Financial Statements



Independent Auditor's Report to the Members of Sondrel (Holdings) Plc



Opinion

We have audited the financial statements of Sondrel (Holdings) Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity and the Consolidated Statement of Cash Flows and the notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the 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 as applied to listed entities, 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.

Our approach to the audit

Of the group's 7 reporting components, we subjected 2 to audits for group reporting purposes and 3 to specific audit procedures where the extent of our audit work was based on our assessment of the risk of material misstatement and of the materiality of that component. The latter were not individually significant enough to require an audit for group reporting purposes but were still material to the group.

The components within the scope of our work covered 100% of group revenue, 97% of group loss before tax, and 89% of group net assets.

For the remaining 2 components, we performed analysis at a group level to re-examine our assessment that there were no significant risks of material misstatement within these. We also performed analytical reviews of these components.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Description of risk	How the matter was addressed in the audit
Occurrence of revenue in relation to projects which are ongoing at the year end.	There is a significant risk around the occurrence of revenue for open contracts (i.e. contracts where only some of the performance obligations have been met at the year end). There is a significant amount of judgement around the level of completion of a contract.	<p>We reviewed the revenue recognition policy as identified in note 2.4c and considered whether this was in line with IFRS 15.</p> <p>We selected a sample of ongoing projects at the year end, for each of these we:</p> <ul style="list-style-type: none"> ▪ Obtained the relevant contract, read this and ensured the accounting treatment was in line with the accounting policy. ▪ Agreed inputs back to the statement of works or other supporting documentation. ▪ Agreed the sample back to the corresponding purchase order. ▪ Confirmed that FX had been applied correctly. ▪ Agreed the amount paid to date. ▪ Agreed the time spent on each project by the group's engineers back to the timesheet reports. ▪ Obtained the forecasted time required for each sample. ▪ Recalculated the amount of revenue to be recognised, on the input basis. ▪ Enquired with those outside of the finance team, to confirm that the time spent by engineers was allocated to that project and that the forecasts are appropriate. ▪ Where the costs used as a basis for the input method were not time-costs, we agreed these to supporting documentation.
Listing Costs (Group and Parent Company)	There is a risk that listing costs may not be allocated correctly between equity and expenses, this is as there is a significant judgement as to whether certain costs pertain to the issue of new shares or the listing of existing shares.	<p>We reviewed the treatment of listing costs as outlined in note 3. We obtained a schedule of the costs incurred, and the rationale for the clients split of these costs.</p> <p>For a sample of these costs, we obtained third party supporting documentation, assessed the reasonableness of the allocation methodology determined by management and then we then created an expectation for the split of these costs, and compared them to managements calculation.</p>

Independent Auditor's Report To The Members Of Sondrel (Holdings) Plc continued

Our application of materiality

The materiality for the group financial statements as a whole ("group FS materiality") was set at £350,000. This has been determined with reference to the benchmark of the group's revenue, which we consider to be one of the principal considerations for members of the company in assessing the group's performance. Group FS materiality represents 2% of the group's revenue as presented on the face of the consolidated statement of comprehensive income.

The materiality for the parent company financial statements as a whole ("parent FS materiality") was set at £349,999. This has been determined with reference to the benchmark of the parent company's net assets as it exists only as a holding company for the group and carries on no external trade in its own right. Parent FS materiality represents 2% of the parent company's net assets as presented on the face of the parent company statement of financial position. This has been capped at just below the level of group materiality.

Performance materiality for the group financial statements was set at £227,000, being 65% of group FS materiality, for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. We have set it at this amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds group FS materiality. We judged this level to be appropriate based on our understanding of the group and its financial statements, as updated by our risk assessment procedures and our expectation regarding current period misstatements including considering experience from previous audits. It was set at 65% to reflect the fact that this was the first year of being a listed company and converting to UK-adopted international accounting standards, as such there was a significant level of complexity and judgement.

Performance materiality for the parent company financial statements was set at £226,999, being 65% of parent FS materiality. It was set at 65% to reflect the fact that this was the first year of being a listed company and converting to UK-adopted international accounting standards, as such there was a significant level of complexity and judgement.

Conclusions relating to going concern

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

Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- Challenging the assumptions used in the detailed budgets and forecasts prepared by management.
- Comparing the forecast results to those actually achieved in the 2023 financial period so far;
- Reviewing bank statements to monitor the cash position of the group post year end, and obtaining an understanding of significant expected cash outflows in the forthcoming 12-month period;
- Considering the group's funding position and requirements;
- Considering the sensitivity of the assumptions and re-assessing headroom after sensitivity.

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

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

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 contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 directors' responsibilities statement (page 23) the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent Auditor's Report To The Members Of Sondrel (Holdings) Plc *continued*

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.

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

We obtained an understanding of the Group and Parent Company's legal and regulatory framework through enquiry of management of their understanding of the relevant laws and regulations, the Group's and Parent Company's policies and procedures regarding compliance and how they identify, evaluate and rectify any instances of non-compliance. We also drew on our existing understanding of the Group's and Parent Company's industry.

We understand the Group and Parent Company comply with requirements of the framework through:

- The directors' close involvement in the day-to-day running of the business, meaning that any litigation or claims would come to their attention directly; and
- The outsourcing of tax compliance to external experts.

In the context of the audit, we considered those laws and regulations which determine the form and content of the financial statements, which are central to the Group's and Parent Company's abilities to conduct business and where failure to comply could result in material penalties. We have identified the following laws and regulations as being of significance in the context of the Group and Parent Company:

- The Companies Act 2006 and UK-adopted international accounting standards in respect of the preparation and presentation of the financial statements.
- AIM Rules for companies.

We performed the following specific procedures to gain evidence about compliance with the significant laws and regulations above:

- Inquiries with management as to any evidence of non-compliance;
- Performed a review of board minutes to identify any indicators of known or suspected non-compliance with significant laws and regulations; and
- Ensuring our audit team had sufficient relevant experience.

The senior statutory auditor led a discussion with senior members of the engagement team regarding the susceptibility of the Group's and Parent Company's financial statements to material misstatement, including how fraud might occur. The key areas identified as part of the discussion were with regard to the manipulation of the financial statements through manual journals and revenue recognition. This was communicated to the other members of the engagement team who were not present at the discussion.

The procedures carried out to gain evidence in the above areas included:

- Testing of manual journal entries, selected based on specific risk assessments applied based on the client processes and controls surrounding manual journals; and
- Testing the occurrence of revenue transactions to underlying documentation.

A further description of our responsibilities is available on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Bishop (Senior Statutory Auditor)
Senior Statutory Auditor, for and on behalf of
CLA Evelyn Partners Limited
Statutory Auditor
Chartered Accountants
45 Gresham Street
London
EC2V 7BG

Date:

Consolidated Statement of Profit and Loss and Other Comprehensive Income

for the year ended 31 December 2022

	Note	2022 £	2021 £
Revenue	6	17,510,825	8,118,236
Cost of sales		(15,897,751)	(8,165,554)
Gross profit/(loss)		1,613,074	(47,318)
Administrative expenses		(7,814,885)	(5,480,905)
Other operating income		965,655	517,178
Operating loss	10	(5,236,156)	(5,011,045)
Finance costs	11	(1,175,510)	(520,777)
Finance income	12	30	724
Loss before tax		(6,411,636)	(5,531,098)
Income tax credit	13	3,219,735	74,711
Loss for the year attributable to the owners of the parent		(3,191,901)	(5,456,387)
Other comprehensive (expense)/income			
Other comprehensive (expense)/income that may be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translation of foreign operations		(39,079)	5,501
Other comprehensive (expense)/income for the year (net of tax)		(39,079)	5,501
Total comprehensive expense for the year attributable to the owners of the parent		(3,230,980)	(5,450,886)
Losses per share attributable to the owners of the parent			
Basic	14	(0.06)	(0.11)
Diluted	14	(0.06)	(0.11)

All activity in both the current and the prior year relates to continuing operations.

The notes on pages 40 to 81 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

at 31 December 2022

	Note	31 December 2022 £	31 December 2021 £	1 January 2021 £
Non-current assets				
Property, plant and equipment	15	293,914	175,181	200,604
Right-of-use assets	16	637,100	525,165	498,965
Intangible assets	17	14,547,870	9,346,380	11,507,008
Deferred tax assets	23	3,199,744	-	-
Total non-current assets		18,678,628	10,046,726	12,206,577
Current assets				
Inventories	20	1,044,069	-	-
Trade and other receivables	21	10,197,124	3,006,941	3,665,628
Cash and cash equivalents	22	4,449,812	29,797	110,069
Income tax receivable		149,853	107,125	365,267
Total current assets		15,840,858	3,143,863	4,140,964
Total assets		34,519,486	13,190,589	16,347,541
Current liabilities				
Trade and other payables	24	14,677,767	9,948,585	5,040,054
Short-term borrowings	25	-	1,351,042	58,333
Short-term lease liabilities	26	291,124	276,788	248,290
Total current liabilities		14,968,891	11,576,415	5,346,677
Non-current liabilities				
Other payables	24	9,984,228	6,791,294	10,555,114
Borrowings	25	700,000	1,140,625	2,041,667
Lease liabilities	26	307,944	258,794	243,003
Deferred tax liabilities	23	74,933	-	-
Total non-current liabilities		11,067,105	8,190,713	12,839,784
Total liabilities		26,035,996	19,767,128	18,186,461
Net assets/(liabilities)		8,483,490	(6,576,539)	(1,838,920)
Equity				
Issued share capital	29	87,462	8,345	8,345
Share premium	30	18,286,562	122,431	122,431
Foreign currency translation reserve	30	(55,597)	(16,518)	(22,019)
Share-based payment reserve	30	812,676	1,236,397	523,130
Retained deficit	30	(10,647,613)	(7,927,194)	(2,470,807)
Total equity		8,483,490	(6,576,539)	(1,838,920)

The consolidated financial statements were approved and authorised for issue by the Board on 23 May 2023 and were signed on its behalf by:

G S Curren
Director

The notes on pages 40 to 81 form part of these consolidated financial statements.

Company Statement of Financial Position

at 31 December 2022

	Note	31 December 2022 £	31 December 2021 £	1 January 2021 £
Non-current assets				
Investment in subsidiaries	18	1,328,086	1,238,601	525,334
Long-term receivables	21	19,272,024	-	-
Deferred tax assets	23	490,622	-	-
Total non-current assets		21,090,732	1,238,601	525,334
Current assets				
Trade and other receivables	21	189,339	2,471,290	2,407,391
Cash and cash equivalents		11,356	43	-
Total current assets		200,695	2,471,333	2,407,391
Total assets		21,291,427	3,709,934	2,932,725
Current liabilities				
Trade and other payables	24	40,669	-	-
Total current liabilities		40,669	-	-
Non-current liabilities				
Borrowings	25	700,000	700,000	700,000
Total non-current liabilities		700,000	700,000	700,000
Total liabilities		740,669	700,000	700,000
Net assets		20,550,758	3,009,934	2,232,725
Equity				
Issued share capital	29	87,462	8,345	8,345
Share premium	30	18,286,562	122,431	122,431
Share-based payment reserve	30	812,676	1,236,397	523,130
Retained earnings	30	1,364,058	1,642,761	1,578,819
Shareholders' funds		20,550,758	3,009,934	2,232,725

The Company has taken advantage of the exemption under S408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The loss for the year of the Company after tax was £750,185 (2021: profit of £63,942).

The Company financial statements were approved and authorised for issue by the Board on 23 May 2023 and were signed on its behalf by:

G S Curren

Director

Company number: 07275279

The notes on pages 40 to 81 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2022

	Note	Share capital £	Share premium £	Foreign currency translation reserve £	Share-based payment reserve £	Retained deficit £	Total £
Balance at 1 January 2021		8,345	122,431	(22,019)	523,130	(2,470,807)	(1,838,920)
Loss for the year		-	-	-	-	(5,456,387)	(5,456,387)
Other comprehensive income		-	-	5,501	-	-	5,501
Total comprehensive income / (expense) for the year		-	-	5,501	-	(5,456,387)	(5,450,886)
Share-based payment charge	28	-	-	-	713,267	-	713,267
Total transactions with owners		-	-	-	713,267	-	713,267
At 31 December 2021		8,345	122,431	(16,518)	1,236,397	(7,927,194)	(6,576,539)
Loss for the year		-	-	-	-	(3,191,901)	(3,191,901)
Other comprehensive expense		-	-	(39,079)	-	-	(39,079)
Total comprehensive expense for the year		-	-	(39,079)	-	(3,191,901)	(3,230,980)
Share issues	29	36,364	18,164,131	-	-	-	18,200,495
Exercise of share options	28	1,029	-	-	(513,206)	513,206	1,029
Bonus issues	29	41,724	-	-	-	(41,724)	-
Share-based payment charge	28	-	-	-	89,485	-	89,485
Total transactions with owners		79,117	18,164,131	-	(423,721)	(471,482)	18,291,009
At 31 December 2022		87,462	18,286,562	(55,597)	812,676	(10,647,613)	8,483,490

The notes on pages 40 to 81 form part of these consolidated financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2022

	Note	Share capital £	Share premium £	Share-based payment reserve £	Retained earnings £	Total £
Balance at 1 January 2021		8,345	122,431	523,130	1,578,819	2,232,725
Profit for the year		-	-	-	63,942	63,942
Total comprehensive income for the year		-	-	-	63,942	63,942
Share-based payment charge	28	-	-	713,267	-	713,267
Total transactions with owners		-	-	713,267	-	713,267
At 31 December 2021		8,345	122,431	1,236,397	1,642,761	3,009,934
Loss for the year		-	-	-	(750,185)	(750,185)
Total comprehensive expense for the year		-	-	-	(750,185)	(750,185)
Transactions with owners in their capacity as owners:						
Share issues	29	36,364	18,164,131	-	-	18,200,495
Exercise of share options	28	1,029	-	(513,206)	513,206	1,029
Bonus issues	29	41,724	-	-	(41,724)	-
Share-based payment charge	28	-	-	89,485	-	89,485
Total transactions with owners		79,117	18,164,131	(423,721)	471,482	18,291,009
At 31 December 2022		87,462	18,286,562	812,676	1,364,058	20,550,758

The notes on pages 40 to 81 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2022

	Note	2022 £	2021 £
Cash used in operations	31	(4,952,766)	(260,744)
Income tax credit received in respect of R&D		202,222	332,853
Net cash (outflow)/inflow from operating activities		(4,750,544)	72,109
Cash flows from investing activities			
Purchase of property, plant and equipment		(204,194)	(55,319)
Purchase of intangible assets		(4,306,066)	(106,165)
Interest received		30	724
Net cash outflow from investing activities		(4,510,230)	(160,760)
Cash flows from financing activities			
Proceeds from issue of share capital		18,200,495	-
Proceeds from exercise of share options		1,029	-
Proceeds from borrowings		-	450,000
Repayment of borrowings		(1,791,667)	(58,333)
Payment of principal portion of lease liabilities	26	(269,838)	(285,000)
Interest paid		(1,160,881)	(610,929)
Interest paid on lease liabilities	26	(24,833)	(19,527)
Net cash inflow/(outflow) from financing activities		14,954,305	(523,789)
Net increase/(decrease) in cash and cash equivalents		5,693,531	(612,440)
Cash and cash equivalents at the beginning of the financial year	22	(1,243,719)	(631,279)
Cash and cash equivalents at end of year	22	4,449,812	(1,243,719)

The notes on pages 40 to 81 form part of these consolidated financial statements.

Notes forming part of the Consolidated Financial Statements

for the year ended 31 December 2022

1. General information

Sondrel (Holdings) plc (the "Company") is a public limited company, limited by shares, which is listed on the Alternative Investment Market (AIM) of the London Stock Exchange. The Company is incorporated, domiciled and registered in England and Wales, with registration number 07275279. The address of its registered office is Sondrel House, Theale Lakes Business Park, Moulden Way, Sulhamstead, Reading, RG7 4GB.

These financial statements incorporate the financial information of the Company and its subsidiaries (together referred to as the "Group").

The Group's principal activity is the execution of system-on-chip IC designs, and associated engineering services, with particular focus on AI, video, automotive and IoT related applications.

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 Application of Financial Reporting Requirements issued by the FRC. Accordingly, these financial statements are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

The Company's principal activity is to act as an investment holding company that provides management services to its subsidiaries.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, certain disclosures in respect of revenue from contracts with customers and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared on the historical cost basis except for the re-measurement of certain financial instruments that are measured at fair values at the end of each reporting period. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements.

In the current year, the Company has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

2. Significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act and as applicable to companies reporting under those standards.

For all periods up to and including the year ended 31 December 2021, the Group prepared its financial statements in accordance with Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"). These financial statements for the year ended 31 December 2022 are the first the Group has prepared in accordance with UK-adopted International Accounting Standards ("IFRS").

Refer to Note 4 for information on how the Group adopted IFRS.

The consolidated financial statements have been prepared on a historical cost basis and are presented in pounds sterling which is also the Company's functional currency. All amounts are rounded to the nearest pound sterling unless stated otherwise.

No profit and loss account for the Company has been presented as permitted by Section 408 of the Companies Act 2006. Copies of these financial statements can be obtained from Sondrel House, Theale Lakes Business Park, Moulden Way, Sulhamstead, Reading, RG7 4GB.

2.2 Basis of consolidation

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity.

Where the Company has control over an investee, it is classified as a subsidiary. The Group controls its investee when it has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);

- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

If the Group loses control over a subsidiary, it derecognises the related assets, liabilities and other components of equity, while any resultant gain or loss is recognised in profit or loss.

2.3 Going concern

At 31 December 2022, the Group had cash reserves of £4,449,812 (2021: £29,797, 1 January 2021: £110,069) and net current assets of £871,967 (2021: net current liabilities of £8,432,552, 1 January 2021: net current liabilities of £1,205,713). The Directors have prepared detailed future forecasts for the Group taking into account post-year end trading conditions which carefully considers the Group's ability to meet its future forecasted cash requirements.

The Directors have reviewed cash flow forecasts for the business covering a period of at least 12 months from the date of approval of the financial statements, and together

with the projected revenue and available cash reserves, they are confident that sufficient funding is available to support ongoing trading activity and investment plans for the business. The financial statements have therefore been prepared on a going concern basis.

The Group's Directors continue to monitor and evaluate performance by:

- performing ongoing reviews and close management of the cost base in response to market activity;
- continuing to invest in research and development activities to ensure the business continues to take advantage of market recovery; and
- maintaining strong relationships and open communication with all stakeholders to ensure their ongoing support.

As part of normal business practice, the Group prepares monthly detailed financial forecasts which incorporate year-to-date performance and scenario planning.

2.4 Summary of significant accounting policies

The following are the significant accounting policies applied by the Group and Company in preparing its consolidated and individual financial statements respectively:

(a) Investments in subsidiary undertakings

Investments in subsidiary undertakings for the Company are stated at cost unless, in the opinion of the Directors, there has been impairment to their value, in which case they are written down to their recoverable amount.

(b) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- expected to be realised or intended to be sold or consumed in the normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

Notes forming part of the Consolidated Financial Statements **continued**

A liability is current when:

- it is expected to be settled in the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(c) Revenue from contracts with customers

The Group is in the business of providing system-on-chip and associated engineering services.

Revenue from contracts with customers is recognised when, in accordance with IFRS 15, control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Project revenue

The Group provides services to customers in project arrangements, covering the Design phase, New Product Integration ("NPI") phase and Production phase.

There are situations where contracts with customers for these phases are entered into simultaneously. Where this is the case, and the contracts are negotiated as a package with a single commercial objective, they are accounted for as a single contract.

In order to identify the performance obligations in the contract, the Directors assess the services provided in the contracts and whether they are capable of being distinct and distinct in the context of the contract. The Group has identified that the Design service, NPI service and Production service are separate performance obligations. The Production services represents a service offering provided by the Group which has not generated revenue for the Group in the year ended 31 December 2022.

Where the contracts with customers contain more than one performance obligation, any discount provided to the customer in the contract is allocated on a proportionate basis over all performance obligations within the contract.

When project contracts contain only one performance obligation, and are not combined with other performance obligations, the contracts with customers are for fixed price consideration with no variable components.

The Group does not enter into any arrangements with customers which include a significant financing component.

The service provided to customers does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed at contracted rates which include cost plus a reasonable profit margin. Therefore, the Group recognises revenue from these performance obligations over time.

In order to determine a measure of progress of satisfaction of the Design and NPI performance obligations, the Group uses the input method based on time incurred, as this best reflects the progress of satisfaction of the performance obligations and the delivery of the output to the customer.

Contract variations are treated as modifications, as there is only one performance obligation to the design phase of a contract, any variations to scope cannot be distinct and are recognised on a cumulative catch-up basis.

Consultancy revenue

The Group provides consultants to provide services to customers. Each of these consultancy arrangements are separate performance obligations. The customer simultaneously receives and consumes the benefits provided by the Group's performance and so the Group recognises revenue for this performance obligation over time.

The majority of contracts with customers are for fixed price consideration with no variable components. Certain contracts contain fixed rebates payable to the customer for which no distinct service is provided to the Group. These rebates constitute a form of variable consideration and are recognised as a reduction to the revenue.

The Group had one arrangement with a customer which involved the withholding of a retention until completion of the project. The arrangement provided the customer with protection for the Group failing to adequately complete obligations under the contract. Therefore, this is not accounted for as a significant financing component. As this is a contractual payment term, revenue is recognised in full as the Group performs, with a contract asset recognised for the retention element. In order to determine a measure of progress of satisfaction of the performance obligation, the Group uses the input method based on time incurred, as this best reflects the progress of satisfaction of the performance obligation.

Warranties

The Group provides warranties to customers that ensure that the products comply with agreed-upon-specifications. The warranty arrangements are not recognised as separate performance obligations because they cannot be purchased separately and do not provide the customer with a service in addition to the assurance that the product complies with agreed-upon specifications. A provision is recognised for warranty claims when they meet the recognition criteria.

Contract balances

Contract assets / receivables

A contract asset is initially recognised for revenue earned from services in advance of an invoice being issued where the Group does not have an enforceable right for payment for work performed. Where the Group does have an enforceable right for payment for work performed, unbilled revenue is recognised as other contract receivables. Upon the issuance of an invoice, the amount recognised is reclassified to trade receivables.

Contract cost - costs to obtain a contract

Costs to obtain a contract relate to sales commission paid which would not be payable if the contract has not been obtained. This cost is recognised as an asset and amortised over the duration of the contract. Where the amortisation period of the asset would be one year or less, the cost is recognised as an expense when incurred.

Contract cost – costs to fulfil a contract

Costs to fulfil a contract mainly relate to direct labour costs and software tools which are expensed as incurred. The Group does not incur costs to fulfil their obligations under a contract once it is obtained, but before transferring goods or services to the customer and therefore no contract cost asset is recognised.

Contract liabilities

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related services. Contract liabilities are recognised as revenue when the Group performs under the contract.

(d) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities representing obligations to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where impairment indicators exist, the right-of-use asset will be assessed for impairment.

Right-of-use assets have been presented separately on the statement of financial position as they are a material balance within the property, plant and equipment total.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets as follows:

Property	-	3 – 5 years straight line
Motor vehicles	-	3 years straight line
IT equipment	-	3 years straight line

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable and variable lease payments that depend on an index or a rate.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the interest and reduced for the lease payments made.

Notes forming part of the Consolidated Financial Statements *continued*

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, being those leases with a term of 12 months or less. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(e) Employee benefits

Short-term employee benefits including holiday pay and annual bonuses are accrued as services are rendered.

Contributions to defined contribution pension schemes are charged to profit or loss as they become payable in accordance with the rules of the scheme. Differences between contributions payable in the year and those actually paid are shown as either accruals or other receivables in the Statement of Financial Position.

(f) Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in note 28.

That cost is recognised as an expense, together with a corresponding increase in equity, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

(g) Interest

Interest income and expense is recognised using the effective interest rate basis.

(h) Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except if it arises from transactions or events that are recognised in other comprehensive income or directly in equity. In this

case, the tax is recognised in other comprehensive income or directly in equity respectively.

Current tax

Current tax is based on the taxable profit for the year and is calculated using the tax rates in force or substantively enacted at the reporting date. Taxable profit differs from accounting profit either because some income and expenses are never taxable or deductible, or deductible in other years.

Deferred tax

Deferred tax is recognised in respect of all temporary differences between the carrying value of assets and liabilities in the consolidated statement of financial position and the corresponding tax base, with the exception of temporary differences arising from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The measurement of deferred tax assets and liabilities reflect the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its asset and liabilities.

Deferred tax assets are recognised only to the extent that the Group considers that it is probable (i.e. more likely than not) that there will be sufficient taxable profits available for the asset to be utilised within the same tax jurisdiction. Deferred tax assets and liabilities are offset only when there is a legally enforceable right to offset current tax assets against current tax liabilities, they relate to the same tax authority and the Group's intention is to settle the amounts on a net basis.

Tax credits

The Group makes claims for research and development tax relief in the UK under both the Research and Development Expenditure Credit (RDEC) scheme and the small or medium-sized enterprise (SME) research and development tax relief scheme. Claims under the RDEC scheme are recognised in other operating income. Enhanced expenditure relief under the SME scheme is recognised within the taxation charge / credit.

Research and development tax credits are recognised in the period in which the costs are incurred, and the claim submitted on the basis of an established record of successful research and development tax credit claims for the work undertaken by the employees of the Group.

(i) Foreign currencies

The presentation currency of the Group is pound sterling, which is also the Company's functional currency.

Transactions and balances

Transactions in currencies other than the functional currency are initially recorded at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate at the date of the transaction, or, if the asset or liability is measured at fair value, the rate when that fair value was determined.

All translation differences are taken to profit or loss, except to the extent that they relate to gains or losses on non-monetary items recognised in other comprehensive income, when the related translation gain or loss is also recognised in other comprehensive income.

Consolidation

On consolidation, the assets and liabilities of foreign operations are translated into sterling at the rate of exchange prevailing at the reporting date, with the exception of share capital and fixed assets which are translated at historic rates at the date of the original transaction. Their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income and the foreign currency translation reserve.

(j) Earnings per share and dividends

Basic EPS

Basic earnings per share is calculated on the Group's profit or loss after taxation attributable to the parent entity and on the basis of weighted average of issued and fully paid ordinary shares at the end of the year.

Diluted EPS

Diluted EPS is calculated by dividing the profit or loss after taxation attributable to the parent entity by the weighted average number of ordinary shares outstanding during

the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares (after adjusting for outstanding share awards arising from the share-based payment scheme) into ordinary shares.

(k) Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and any accumulated impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is included within administrative expenses and is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Office equipment - 3 – 10 years straight line

Additions to property, plant and equipment are depreciated from the date the asset becomes available for intended use.

An item of property, plant and equipment is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

(l) Intangible assets

Intangible assets are initially recognised at cost and subsequently carried at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Notes forming part of the Consolidated Financial Statements continued

An intangible asset is derecognised upon disposal (i.e. at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

Research and development

Research expenditure relates primarily to new internal process improvements that will bring tangible benefits to future product development. Expenditure on the research phase of projects is recognised as an expense as incurred.

Costs that are directly attributable to a project's development phase are recognised as intangible assets, provided they meet the following recognition requirements:

- the development costs can be measured reliably
- the project is technically and commercially feasible
- the Group intends to and has sufficient resources to complete the project
- the Group has the ability to use or sell the developed software
- the developed software will generate probable future economic benefits

Development costs not meeting these criteria for capitalisation are expensed as incurred.

The key judgement areas are the ability to measure the future economic benefits reliably and determining the period over which these benefits are delivered. The Group measures each research and development project on its own merits.

The main costs attributed to development costs are that of payroll, third party contractors and third party software.

Under IAS 38, at the point where activities no longer relate to development but to maintenance, capitalisation is discontinued.

Amortisation is included within cost of sales and is recognised as follows:

- | | | |
|-------------------|---|--|
| Software licences | - | on a usage basis over the length of licence agreement. Licence agreements have lives of between 1 and 3 years. |
|-------------------|---|--|

- | | | |
|-------------------|---|---|
| Development costs | - | not amortised until brought into use. The useful life is considered to be 10 years. |
|-------------------|---|---|

(m) Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

(n) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

(o) Inventories

Inventories relate to work in progress and are valued at the lower of cost and net realisable value. Costs incurred relate to direct materials.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits.

Bank overdrafts are included in cash and cash equivalents for the purposes of presentation in the statement of cash flows because they are an integral part of the Group's cash management. Bank overdrafts are included in trade and other payables in the statement of financial position.

(q) Financial instruments

Financial assets

Financial assets comprise trade and other receivables and cash and cash equivalents.

Trade and other receivables are initially measured at transaction price, and subsequently at their amortised cost subject to any impairment in accordance with IFRS 9.

Impairment

For trade receivables, contract receivables and contract assets, the Group applies a simplified approach in calculating expected credit losses (ECLs). Therefore, the Group recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Group considers a financial asset in default when contractual payments are 60 days past due.

Financial liabilities

Financial liabilities comprise trade and other payables and loans and borrowings and are recognised initially at fair value net of directly attributable transaction costs (if any), and subsequently at amortised cost.

Modification of financial liabilities

Where there is a modification to a financial liability, the discounted present value of the cash flows under the new terms, using the original effective interest rate, is compared to the discounted present value of the remaining cash flows of the original liability. If the difference is greater than 10%, this is considered to be a substantial modification, resulting in a derecognition of the original liability and the recognition of a new liability.

Equity

Equity instruments issued are recorded at fair value on initial recognition net of transaction costs.

(r) Borrowings

Interest bearing bank loans and overdrafts are initially recorded at the value of the amount received, net of attributable transaction costs. Interest bearing borrowings are subsequently stated at amortised cost with any difference between cost and redemption value being recognised in the consolidated statement of profit and loss and other comprehensive income over the period of the borrowing using the effective interest method.

(s) Accounting standards issued

A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 (effective for annual periods beginning on or after 1 January 2022) were issued and adopted in the year as part of the Group's adoption of IFRS.

Refer to Note 4 for information on how the Group adopted IFRS.

(t) Standards in issue but not yet effective

At the date of authorisation of these financial statements there were amendments to standards which were in issue, but which were not yet effective, and which have not been applied. The principal ones were:

Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8 (effective for annual periods beginning on or after 1 January 2023).

Amendment to IAS 12 - Deferred tax related to assets and liabilities arising from a single transaction (effective for annual periods beginning on or after 1 January 2023)

Amendment to IFRS 16 - Leases on sale and leaseback transaction (effective for annual periods beginning on or after 1 January 2024)

Amendments to IAS 1, Presentation of financial statements on classification of liabilities (effective date deferred until accounting periods starting not earlier than 1 January 2024)

The Directors do not expect the adoption of these amendments to standards to have a material impact on the financial statements.

3. Key sources of estimation uncertainty and significant accounting judgements

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Significant accounting judgements

Operating segments

The Directors have assessed that there is only one reportable segment. This is based on the fact that all strategic decisions are managed centrally and not by location, the Group provides similar products and services to all its customers and all results are reported on a group basis.

Notes forming part of the Consolidated Financial Statements continued**Intangible assets – capitalisation of development costs**

The capitalisation of development costs is subject to a review as to whether it meets the criteria for capitalisation. In making this judgement, the Group evaluates, amongst other factors, whether there are any future economic benefits beyond the current period, such as the ability to use the assets on future projects and therefore enhance future revenues, or the ability to use such assets internally, for example to reduce delivery costs and enhance profits. The Group also evaluates management's ability to measure reliably the expenditure attributable to the project. Judgement is therefore required in determining the practice for capitalising development costs.

Deferred tax assets

Deferred tax assets are recognised for the Group and Company to the extent that it is regarded as more likely than not that they will be recovered. Recoverability is based on the forecast of future profitability commencing in 2023. Such forecasts are subject to an element of judgement regarding future revenues and expenditure, however, the Directors are satisfied that the basis of those forecasts allow for full recognition of the deferred tax asset.

Listing costs

The decision of how to split the costs incurred on an equity raise via IPO requires judgement given that, whilst costs incurred on an equity raise should be recognised against equity in share premium, costs that relate to a stock market listing should be recognised as an expense in the consolidated statement of profit and loss and other comprehensive income.

For the year ending 31 December 2022, the total IPO cost of £3.2m was split accordingly, with £1.8m posted to share premium and £1.4m as exceptional cost in the statement of profit and loss and comprehensive income.

Revenue

In accordance with the policy on revenue recognition, management are required to judge the level of completion of the contract in order to recognise both income and cost. The overall recognition of revenue will depend on the nature of the project and whether it is billed on a time and materials basis or, otherwise, on completion of pre-agreed project objectives.

The Group maintains complete and accurate records of employees' time and expenditure for each project. This information is regularly assessed to determine the level of project completion, and thereby whether it is appropriate to recognise any profits.

Key sources of estimation uncertainty

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

Amortisation rate for licences

During 2022 the Group acquired licences with a value of £7.4m (2021: £nil). These licences are amortised based on expected usage of the licences over the period of the contract. The amortisation rate is continually reassessed in accordance with changes to future project revenues.

The carrying amount of licences as at 31 December 2022 was £14.3m (2021: £9.3m, 1 Jan 2021: £11.5m).

4. First-time adoption of IFRS

The financial statements for the year ended 31 December 2022 are the first the Group has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2021, the Group prepared its financial statements in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102').

Accordingly, the Group has prepared financial statements that comply with IFRS (as described in the summary of significant accounting policies in note 2) for the year ended 31 December 2022, the comparative information presented in these financial statements for the year ended 31 December 2021, and an opening IFRS consolidated statement of financial position at 1 January 2021 (the Group's date of transition to IFRS).

In preparing its opening IFRS consolidated statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (FRS 102). An explanation of how the transition from FRS 102 to Adopted IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Exemptions applied and related considerations

IFRS 1 allows first-time adopters exemptions from the retrospective application of certain requirements under IFRS.

The Group has applied the following exemptions:

- a) The Group has taken advantage of the exemption from retrospectively applying IAS 21 The Effects of Changes in Foreign Exchange Rates in relation to fair value adjustments that occurred before the date of transition to IFRS. Such fair value adjustments are treated as assets and liabilities of the parent rather than as assets and liabilities of the acquiree.
- b) The Group has also taken advantage of the exemption from retrospectively applying IAS 21 in relation to cumulative currency translation differences. Cumulative currency translation differences for all foreign operations are therefore deemed to be zero as at 1 January 2021.

- c) The Group has taken advantage of IFRS 1 paragraph D9B which provide first-time IFRS adopters with exemptions from IFRS 16 Leases relating to lease payments associated with leases for which the lease term ends within 12 months of the date of transition to IFRS and leases for which the underlying asset is of low value.

These leases have been recognised as an expense on either a straight-line basis over the lease term or another systematic basis.

- d) The Group has elected to apply the transitional provisions in paragraphs C5 and C6 of IFRS 15 Revenue from Contracts with Customers. In these paragraphs, references to the 'date of initial application' shall be interpreted as the beginning of the first IFRS reporting period (1 January 2021).

Further, the Group is not required to restate contracts that were completed before the earliest period presented (completed before 1 January 2021). A completed contract is a contract for which the Group has transferred all of the goods or services identified in accordance with FRS 102.

Estimates

The estimates at 1 January 2021 and at 31 December 2021 are consistent with those made for the same dates in accordance with FRS 102 (after adjustments to reflect any differences in accounting policies detailed as part of this note and in note 2 of these financial statements).

Notes forming part of the Consolidated Financial Statements *continued*

Group reconciliation of equity as at 1 January 2021 (date of transition to IFRS)

	Notes	FRS 102 as at 1 January 2021 £	Reclassification & remeasure- ments £	IFRS as at 1 January 2021 £
Non-current assets				
Property, plant and equipment		200,604	-	200,604
Right-of-use assets	A	-	498,965	498,965
Intangible assets		11,507,008	-	11,507,008
Total non-current assets		11,707,612	498,965	12,206,577
Current assets				
Trade and other receivables	A, C	4,038,469	(372,841)	3,665,628
Cash and cash equivalents		110,069	-	110,069
Income tax receivable	C	-	365,267	365,267
Total current assets		4,148,538	(7,574)	4,140,964
Total assets		15,856,150	491,391	16,347,541
Current liabilities				
Trade and other payables	A	5,066,318	(26,264)	5,040,054
Short-term borrowings		58,333	-	58,333
Short-term lease liabilities	A	-	248,290	248,290
Total current liabilities		5,124,651	222,026	5,346,677
Non-current liabilities				
Other payables		10,555,114	-	10,555,114
Borrowings		2,041,667	-	2,041,667
Lease liabilities	A	-	243,003	243,003
Total non-current liabilities		12,596,781	243,003	12,839,784
Total liabilities		17,721,432	465,029	18,186,461
Net (liabilities)/assets		(1,865,282)	26,362	(1,838,920)
Equity				
Issued share capital		8,345	-	8,345
Share premium		122,431	-	122,431
Foreign currency translation reserve	B	-	(22,019)	(22,019)
Share-based payment reserve	D	-	523,130	523,130
Retained deficit		(1,996,058)	(474,749)	(2,470,807)
Total equity		(1,865,282)	26,362	(1,838,920)

Group reconciliation of equity as at 31 December 2021

	Notes	FRS 102 as at 31 December 2021 £	Reclassification & remeasure- ments £	IFRS as at 31 December 2021 £
Non-current assets				
Property, plant and equipment		175,181	-	175,181
Right-of-use assets	A	-	525,165	525,165
Intangible assets		9,346,380	-	9,346,380
Total non-current assets		9,521,561	525,165	10,046,726
Current assets				
Trade and other receivables	A, C	3,200,524	(193,583)	3,006,941
Cash and cash equivalents		29,797	-	29,797
Income tax receivable	C	-	107,125	107,125
Total current assets		3,230,321	(86,458)	3,143,863
Total assets		12,751,882	438,707	13,190,589
Current liabilities				
Trade and other payables	A	10,019,903	(71,318)	9,948,585
Short-term borrowings		1,351,042	-	1,351,042
Short-term lease liabilities	A	-	276,788	276,788
Total current liabilities		11,370,945	205,470	11,576,415
Non-current liabilities				
Other payables		6,791,294	-	6,791,294
Borrowings		1,140,625	-	1,140,625
Lease liabilities	A	-	258,794	258,794
Total non-current liabilities		7,931,919	258,794	8,190,713
Total liabilities		19,302,864	464,264	19,767,128
Net liabilities		(6,550,982)	(25,557)	(6,576,539)
Equity				
Issued share capital		8,345	-	8,345
Share premium		122,431	-	122,431
Foreign currency translation reserve	B	-	(16,518)	(16,518)
Share-based payment reserve	D	-	1,236,397	1,236,397
Retained deficit		(6,681,758)	(1,245,436)	(7,927,194)
Total equity		(6,550,982)	(25,557)	(6,576,539)

Notes forming part of the Consolidated Financial Statements [continued](#)**Group reconciliation of total comprehensive income for the year ended 31 December 2021**

	Notes	FRS 102 as at 31 December 2021 £	Reclassification & remeasure- ments £	IFRS as at 31 December 2021 £
Continuing operations				
Revenue		8,118,236	-	8,118,236
Cost of sales		(8,165,554)	-	(8,165,554)
Gross profit		(47,318)	-	(47,318)
Administrative expenses	A	(5,066,582)	(414,323)	(5,480,905)
Other operating income		517,178	-	517,178
Operating loss		(4,596,722)	(414,323)	(5,011,045)
Finance costs	A	(501,250)	(19,527)	(520,777)
Finance income		724	-	724
Loss before tax from continuing operations		(5,097,248)	(433,850)	(5,531,098)
Income tax credit		74,711	-	74,711
Loss for the year		(5,022,537)	(433,850)	(5,456,387)
Other comprehensive income:				
Exchange differences on translation of foreign operations		5,501	-	5,501
Other comprehensive income for the period (net of tax)		5,501	-	5,501
Total comprehensive loss for the period		(5,017,036)	(433,850)	(5,450,886)

Group reconciliation of cash flows for the year ended 31 December 2021

	Notes	FRS 102 as at 31 December 2021 £	Reclassification & remeasure- ments £	IFRS as at 31 December 2021 £
Cash flows from operating activities				
Loss before taxation	A, D	(5,022,537)	(433,850)	(5,456,387)
<i>Adjustments for:</i>				
Depreciation of property, plant and equipment		79,402	-	79,402
Depreciation of right-of-use assets	A	-	302,953	302,953
Amortisation of intangible assets		2,154,711	-	2,154,711
Loss on disposal of property, plant and equipment		6,180	-	6,180
Tax credit in relation to research and development expenditure	E	(517,178)	517,178	-
Unrealised foreign currency gains	A	6,583	(136)	6,447
Finance costs	A	501,250	19,527	520,777
Finance income		(724)	-	(724)
Income tax credit	E	74,711	(149,422)	(74,711)
Share-based payment charge	D	331,336	381,931	713,267
<i>Working capital adjustments:</i>				
Decrease in trade and other receivables	A, E	837,945	(171,690)	666,255
Increase in trade and other payables	A, E	657,592	163,494	821,086
Cash generated from operations		(890,729)	629,985	(260,744)
Corporation tax credit received	E	-	332,853	332,853
Net cash (outflow)/inflow from operating activities		(890,729)	962,838	72,109
Cash flows from investing activities				
Purchase of property, plant and equipment		(55,319)	-	(55,319)
Purchase of intangible assets	E	-	(106,165)	(106,165)
Interest received		724	-	724
Net cash outflow from investing activities		(54,595)	(106,165)	(160,760)
Cash flows from financing activities				
New bank loans		450,000	-	450,000
Repayment of bank loans		(58,333)	-	(58,333)
Payment of principal portion of lease liabilities	A	-	(285,000)	(285,000)
Interest paid	E	(58,783)	(552,146)	(610,929)
Interest paid on lease liabilities	A	-	(19,527)	(19,527)
Net cash inflow from financing activities		332,884	(856,673)	(523,789)
Net decrease in cash and cash equivalents		(612,440)	-	(612,440)
Cash and cash equivalents at the beginning of the financial year		(631,279)	-	(631,279)
Cash and cash equivalents at end of year		(1,243,719)	-	(1,243,719)

Notes forming part of the Consolidated Financial Statements [continued](#)

Company reconciliation of equity as at 1 January 2021 (date of transition to IFRS)

	Notes	FRS 102 as at 1 January 2021 £	Reclassification & remeasure- ments £	IFRS as at 1 January 2021 £
Non-current assets				
Investments	F	29,289	496,045	525,334
Total non-current assets		29,289	496,045	525,334
Current assets				
Trade and other receivables		2,407,391	-	2,407,391
Total current assets		2,407,391	-	2,407,391
Total assets		2,436,680	496,045	2,932,725
Non-current liabilities				
Borrowings		700,000	-	700,000
Total non-current liabilities		700,000	-	700,000
Total liabilities		700,000	-	700,000
Net assets		1,736,680	496,045	2,232,725
Equity				
Issued share capital		8,345	-	8,345
Share premium		122,431	-	122,431
Share-based payment reserve	F	-	523,130	523,130
Retained deficit		1,605,904	(27,085)	1,578,819
Total equity		1,736,680	496,045	2,232,725

Company reconciliation of equity as at 31 December 2021

	Notes	FRS 102 as at 31 December 2021 £	Reclassification & Remeasure- ments £	IFRS as at 31 December 2021 £
Non-current assets				
Investments	F	360,625	877,976	1,238,601
Total non-current assets		360,625	877,976	1,238,601
Current assets				
Trade and other receivables		2,471,290	-	2,471,290
Cash and cash equivalents		43	-	43
Total current assets		2,471,333	-	2,471,333
Total assets		2,831,958	877,976	3,709,934
Non-current liabilities				
Borrowings		700,000	-	700,000
Total non-current liabilities		700,000	-	700,000
Total liabilities		700,000	-	700,000
Net assets		2,131,958	877,976	3,009,934
Equity				
Issued share capital		8,345	-	8,345
Share premium		122,431	-	122,431
Share-based payment reserve	F	-	1,236,397	1,236,397
Retained deficit		2,001,182	(358,421)	1,642,761
Total equity		2,131,958	877,976	3,009,934

Notes to the reconciliation of equity as at 1 January 2021 and 31 December 2021, total comprehensive income for the year ended 31 December 2021 and cash flows for the year ended 31 December 2021**A. Recognition of right-of-use assets**

Under FRS 102, a lease is classified as a finance lease or an operating lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term. Under IFRS, a lessee applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets and recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

At the date of the transition to IFRS, the Group recalculated the lease liabilities at each lease inception date by measuring the present value of all of the lease payments, discounted using the lessee's incremental borrowing rate. The discounted liability, the amount remaining as of the start of the conversion period, was recognised accordingly.

The Group identified lease liabilities relating to the offices in the UK, Morocco and India, a UK motor vehicle liability and liabilities relating to UK based server hosting.

Right-of-use assets were measured at the amount equal to the lease liabilities adjusted by the amount of any prepaid or accrued lease payments. As a result, the Group recognised an increase of £599,067 (31 December 2021: £535,582, 1 January 2021: £491,293) of lease liabilities and £637,100 (31 December 2021: £525,165, 1 January 2021: £498,965) of right-of-use assets at transition to IFRS.

The difference between lease liabilities and right-of-use assets has been recognised in retained earnings.

Upon recognition of the right-of-use assets and lease liabilities, small balances previously recognised in prepayments and accruals had to be reversed. At 31 December 2021, the Group reversed £86,458 (1 January 2021: £7,574) of prepayments and £71,318 (1 January 2021: £26,264) of accruals at transition to IFRS.

Additionally, rent expense decreased by £270,561, depreciation increased by £302,953 (both included in administrative expenses) and finance costs increased by £19,527 for the year ended 31 December 2021.

B. Reclassification of foreign currency translation reserve

Under FRS 102, foreign currency movements arising on consolidation were included in equity as part of retained earnings. Under IFRS, it is necessary to present the foreign currency translation reserve as a separate component of equity. At the date of transition to IFRS, the cumulative currency translation differences for all foreign operations are deemed to be £nil, in accordance with the exemptions in IFRS 1.

The total reclassified from retained earnings at 31 December 2021 was £16,518 (1 January 2021: £22,019).

C. Presentational adjustment of income tax receivable

IFRS requires income tax receivable to be separately presented on the statement of financial position. This adjustment is a reclassification of those balances from trade and other receivables. The income tax receivable at 31 December 2021 was £107,125 (1 January 2021: £365,267).

D. Presentational adjustment for share-based payment reserve

Under FRS 102, the Group's share-based payment reserve was contained within retained earnings and not presented separately in the statement of financial position. On conversion to IFRS, the Group has chosen to split out the cumulative share-based payment reserve from the date of conversion to IFRS. The cumulative share-based payment reserve at 31 December 2021 was £1,236,397 (1 January 2021: £523,130).

E. Adjustments to IFRS cash flow conversion to agree to FRS 102 signed statutory accounts at 31 December 2021

When the Group prepared its historical financial information for the IPO, the financial statements for the year ended 31 December 2021 under FRS 102 had not yet been finalised, so the conversion workings were based on draft figures. Additional adjustments were therefore required to bridge the gap between the draft cash flow figures used in the conversion workings and the eventual final cash flow figures in the signed statutory accounts.

F. Capital contribution from the parent company in relation to share-based payments in the Group's subsidiaries

The Company offers share-based payments to a selection of employees in the Group. The share-based payments are charged to the subsidiaries that employ the option holders. The Company, in turn, records these charges as an increase in investment by capital contribution.

Prior to the year ended 31 December 2022, there was no certainty of the share options vesting in the near future and the share option charges were calculated on that basis. However, as the IPO process commenced, it became certain that the options would vest in 2022. The share option charges were recalculated, as part of the IFRS transition, resulting in an increase to the Company investments of £877,976 at 31 December 2021 (1 January 2021: £496,045).

Notes forming part of the Consolidated Financial Statements **continued****5. Segment information**

The Group considers there to be only one business segment which is monitored and reported to the Chief Operating Decision Maker ('CODM'), being the Board of Directors. This judgement is based on the fact that the Group provides similar products and services to all its customers, and the key performance indicators monitored by the CODM are total revenue and profit/(loss) for the year.

Revenue from transactions with major customers comprises the following, each percentage reflects a different customer:

	2022 Major customer percentage revenue %	2022 Revenue £	2021 Major customer percentage revenue %	2021 Revenue £
	41	7,150,114	28	2,239,947
	16	2,732,508	20	1,626,474
	14	2,506,110	13	1,051,556

Revenue is split geographically as follows (for more information on revenue see note 6):

	2022 £	2021 £
UK	5,275,305	5,667,207
USA	3,742,760	300,338
China	825,267	754,891
Rest of World	7,667,493	1,385,800
Total revenue	17,510,825	8,118,236

Non-current assets excluding deferred tax are split as follows:

	2022 £	2021 £	1 January 2021 £
UK	15,422,036	9,799,302	12,064,349
Morocco	38,538	214,504	93,155
Rest of World	18,310	32,920	49,073
Total non-current assets	15,478,884	10,046,726	12,206,577

6. Revenue from contracts with customers

In the following table, revenue is disaggregated by major products/service lines and primary geographical market. All revenue is recognised over time.

	2022 £	2021 £
Major service lines		
Projects (ASIC)	12,838,700	3,082,166
Consultancy	4,672,125	5,036,070
Total	17,510,825	8,118,236
Primary geographical markets		
UK	5,275,305	5,667,207
USA	3,742,760	300,338
China	825,267	754,891
Non-UK	7,667,493	1,385,800
Total	17,510,825	8,118,236

The Group has recognised the following assets and liabilities related to contracts with customers:

	2022 £	2021 £	1 January 2021 £
Trade receivables	3,138,895	2,232,781	2,921,746
Contract receivables	5,972,166	152,236	19,179
Contract liabilities	(5,753,646)	(224,189)	(37,494)

Customers are typically invoiced on the basis of milestones set out in the contracts. These milestones do not correspond with the timing of satisfaction of performance obligations. The differences in the timing between the agreed invoicing schedule and the satisfaction of performance obligations result in the recognition of a contract receivable for services performed but not yet invoiced and a contract liability for consideration received but services not yet performed. Invoices are raised at agreed dates throughout the duration of the Projects and monthly in arrears for Consultancy arrangements. Payment is typically due within 30 days of issue of the invoice.

The movement on these balances during 2021 and 2022 was purely the result of the general course of business for the Group. Existing contracts were fulfilled, and new contracts were entered into during these periods.

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year:

	2022 £	2021 £
Revenue recognised in the year that was included in the contract liability balance at the beginning of the year	114,613	37,494
Revenue recognised in the year that relates to ongoing projects at the previous year end	3,696,914	1,889,640

Notes forming part of the Consolidated Financial Statements continued

The following table shows unsatisfied performance obligations resulting from project works continuing into 2023. The largest three balances from individual projects amount to £6.9m, £1.9m and £1.4m:

	2022 £	2021 £
Transaction price relating to performance obligations that are unsatisfied (or partially unsatisfied) at the year end	11,623,495	4,715,857

These amounts are expected to be recognised as revenue as follows: £11,302,466 recognised as revenue in 2023; £321,029 recognised as revenue in 2024.

The Group is applying the practical expedient to not disclose the transaction price relating to the Consultancy performance obligation because the performance obligation is part of a contract that has an original expected duration of one year or less.

7. Alternative performance measures

These items are included in normal operating costs, however as they are considered significant cash and non-cash expenditure items, they are separately disclosed because of their nature. It is the Group's view that excluding them from the operating loss gives a better representation of the ongoing trading performance of the business in the year.

The Group's primary results measure, which is considered by the Directors of Sondrel (Holdings) plc to better represent the ongoing operating performance of the Group, adjusted EBITDA as set out below. EBITDA is a commonly used measure in which earnings are stated before net finance income, amortisation and depreciation as a proxy for cash generated from trading.

	2022 £	2021 £
Statutory loss before tax	(6,411,636)	(5,531,098)
IPO costs	1,393,265	-
Depreciation	394,022	382,355
Amortisation	2,384,795	2,154,711
Finance costs	1,175,510	520,777
Adjusted EBITDA	(1,064,044)	(2,473,255)
Statutory loss before tax	(6,411,636)	(5,531,098)
IPO costs ⁽¹⁾	1,393,265	-
Adjusted loss	(5,018,371)	(5,531,098)

(1) Costs relating to the IPO, which are not considered to be trading expenditure.

8. Employees

Group	2022 Number	2021 Number
The average number of employees, including Directors, during the year was:		
Sales, administration and management	43	48
Engineering	138	124
Total number of employees	181	172
	£	£
Staff costs, including Directors, consist of:		
Wages and salaries	8,705,322	7,058,101
Social security costs	934,739	615,628
Defined contribution pension costs	393,765	420,802
Share-based payments	89,485	713,267
Total staff costs	10,123,311	8,807,798

The Group makes contributions to defined contribution personal pension schemes for employees and Directors. The assets of the schemes are separate from those of the Group. Pension contributions totalling £55,842 (2021: £48,402) were payable to the schemes at the year-end and are included in trade and other payables.

The Company had no employees in either the current or prior year.

9. Directors' remuneration

The remuneration of the Company Directors and other key management personnel was as follows:

Group	2022 £	2021 £
Directors		
Salaries	598,057	196,875
Social security costs	90,353	24,599
Pension contributions	14,284	-
Share-based payments	69,259	78,189
Total	771,953	299,663
Other key management personnel		
Salaries	600,594	380,761
Social security costs	75,605	47,862
Pension contributions	29,858	26,178
Share-based payments	65,967	489,262
Total	772,024	944,063

Other key management personnel are members of the Senior Leadership Team, not including senior engineering management.

Notes forming part of the Consolidated Financial Statements continued

Included in the above is the remuneration of the highest paid Director as follows:

	2022 £	2021 £
Salary	440,000	184,875
Social security costs	61,266	24,599
Total	501,266	209,474

During the year pension contributions of £14,284 (year ended 31 December 2021: £nil) were made in respect of 1 Director (year ended 31 December 2021: none).

10. Operating loss

	2022 £	2021 £
This has been arrived at after charging/(crediting):		
Research and development expenditure comprising:		
- Salaries included in cost of sales	3,829,011	3,653,741
- Salaries included in administrative expenses	1,002,240	910,378
- Contractor costs	269,559	30,139
- Other costs included in cost of sales	2,865,355	2,412,111
- Other costs included in administrative expenses	104,055	91,535
Depreciation of property, plant and equipment	83,845	79,402
Depreciation of right-of-use assets	310,177	302,953
Amortisation of intangible assets	2,384,795	2,154,711
Foreign exchange loss	534,514	37,028
Expected credit losses of trade receivables and contract assets	91,306	-
Loss on disposal of property plant and equipment	397	6,180
Loss on disposal of right-of-use assets	6,600	-
Expense relating to leases of low-value assets	95,379	68,312
IPO and related other costs	1,427,028	-
Other operating income:		
- Tax credit in relation to research and development expenditure	(965,655)	(517,178)
Fees payable to the Company's auditor for the audit of the parent and consolidated financial statements	20,000	21,500
Fees payable to the Company's auditor for other services:		
- Audit of the Company's subsidiaries pursuant to legislation	97,625	36,000
- Audit-related assurance services	10,000	7,900
- Fees payable for prior year tax compliance services	17,250	8,100

Total research and development expenditure for the year was £8,070,220 (2021: £7,097,904).

11. Finance costs

	2022 £	2021 £
Interest payable on bank overdraft and loan	193,902	69,226
Shareholder loan interest payable	37,201	27,923
Finance costs relating to the purchase of intangible assets	929,778	404,101
Interest expense on lease liabilities	14,629	19,527
Total	1,175,510	520,777

12. Finance income

	2022 £	2021 £
Interest receivable	30	724
Total	30	724

13. Taxation

	2022 £	2021 £
<i>Current tax</i>		
UK current tax on loss for the year	(149,853)	(189,100)
Adjustments in respect of previous years	-	81,975
Foreign tax on income for the year	54,929	32,414
Total current tax credit	(94,924)	(74,711)
<i>Deferred tax (note 23)</i>		
Origination and reversal of timing differences	(3,124,811)	-
Total deferred tax credit	(3,124,811)	-
Total tax credit	(3,219,735)	(74,711)

Notes forming part of the Consolidated Financial Statements continued

The standard rate of corporation tax in the UK for the year was 19% (2021: 19%). The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax are as follows:

	2022 £	2021 £
Loss before tax	(6,411,636)	(5,531,098)
Loss at the standard rate of corporation tax in the UK of 19% (2021: 19%)	(1,218,211)	(1,050,909)
Effect of:		
Expenses not deductible for tax purposes	307,182	114,032
Non-taxable income	(5,383)	(23)
Adjustments in respect of prior periods	-	81,975
Share option exercise relief	(113,250)	
Additional deduction for R&D expenditure	(110,986)	(106,882)
Surrender of tax losses for R&D tax credit refund	258,368	25,516
Previously unrecognised deferred taxes on losses	(1,730,511)	-
Previously unrecognised deferred taxes on share-based payments	(317,340)	-
Deferred tax movement not recognised	-	1,014,037
Difference in overseas tax rates	10,894	(3,211)
Change in tax rates on deferred tax	(320,479)	-
Other	19,981	176
Total tax credit for the year	(3,219,735)	(74,711)

Factors that may affect future tax charge

The Finance Act 2021 was substantively enacted in May 2021 and has increased the UK corporation tax rate to from 19% to 25% with effect from 1 April 2023. The deferred tax balances have been measured using the rates expected to apply in the reporting periods when the timing differences reverse. The UK corporation tax rate is currently 19%. The net deferred tax asset as at 31 December 2022 has been calculated also taking into account the 25% rate effective from 1 April 2023. The change from 19% to 25% will increase the Groups future tax charge, but as the deferred tax assets and liabilities have been recognised for the first time in 2022, this change in rate has had no effect on the deferred tax balances as they have only ever been calculated at 25%.

14. Earnings per share (EPS)

Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

	2022 £	2021 £
Loss for the year (£)	(3,191,901)	(5,456,387)
Weighted average number of shares	57,444,856	50,068,686
Basic earnings/(loss) per share (£)	(0.06)	(0.11)

Diluted earnings per share is determined by adjusting the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding, taking into account the effects of all potential dilutive ordinary shares, including options.

	2022 £	2021 £
Loss for the year (£)	(3,191,901)	(5,456,387)
Weighted average number of shares	57,444,856	50,068,686
Dilutive effect of share options	-	-
Weighted average number of diluted shares	57,444,856	50,068,686
Diluted earnings/(loss) per share (£)	(0.06)	(0.11)

The weighted average number of shares includes the effect of the bonus issue of 41,723,905 shares which occurred in the year ended 31 December 2022.

During 2021 and 2022, the Group made a loss and so the share options are anti-dilutive. As such they are not taken into account in determining the weighted average number of shares for calculating the diluted Earnings Per Share. As a result, the diluted Earnings Per Share is equal to the Basic Earnings Per Share.

Notes forming part of the Consolidated Financial Statements *continued*

15. Property, plant and equipment

Group	Office equipment £
<i>Cost</i>	
At 1 January 2021	764,948
Additions	55,319
Disposals	(20,088)
Foreign exchange differences	30,849
At 31 December 2021	831,028
Additions	204,194
Disposals	(1,134)
Foreign exchange differences	(56,516)
At 31 December 2022	977,572
<i>Depreciation</i>	
At 1 January 2021	564,344
Depreciation charge for the year	79,402
Disposals	(19,825)
Foreign exchange differences	31,926
At 31 December 2021	655,847
Depreciation charge for the year	83,845
Disposals	(737)
Foreign exchange differences	(55,297)
At 31 December 2022	683,658
<i>Net book value</i>	
At 31 December 2022	293,914
At 31 December 2021	175,181
At 1 January 2021	200,604

Depreciation charges for the year have been charged through administrative expenses in the statement of profit and loss and other comprehensive income.

16. Right-of-use assets

Group	Property £	Motor vehicles £	IT equipment £	Total £
<i>Cost</i>				
At 1 January 2021	1,189,813	31,093	88,714	1,309,620
Additions	-	-	123,942	123,942
Modifications	209,453	-	-	209,453
Foreign exchange differences	(6,886)	-	-	(6,886)
At 31 December 2021	1,392,380	31,093	212,656	1,636,129
Additions	393,983	-	1,255	395,238
Disposals	(797,991)	-	-	(797,991)
Foreign exchange differences	33,253	-	-	33,253
At 31 December 2022	1,021,625	31,093	213,911	1,266,629
<i>Depreciation</i>				
At 1 January 2021	746,959	4,917	58,779	810,655
Depreciation charge for the year	272,424	10,374	20,155	302,953
Foreign exchange differences	(2,644)	-	-	(2,644)
At 31 December 2021	1,016,739	15,291	78,934	1,110,964
Depreciation charge for the year	245,495	10,374	54,308	310,177
Disposals	(791,391)	-	-	(791,391)
Foreign exchange differences	(221)	-	-	(221)
At 31 December 2022	470,622	25,665	133,242	629,529
<i>Net book value</i>				
At 31 December 2022	551,003	5,428	80,669	637,100
At 31 December 2021	375,641	15,802	133,722	525,165
At 1 January 2021	442,854	26,176	29,935	498,965

Depreciation charges for the year have been charged through administrative expenses in the statement of profit and loss and other comprehensive income.

Notes forming part of the Consolidated Financial Statements continued

17. Intangible assets

Group	Software licences £	Development costs £	Total £
<i>Cost</i>			
At 1 January 2021	12,517,506	-	12,517,506
Disposals	(5,917)	-	(5,917)
At 31 December 2021	12,511,589	-	12,511,589
Additions	7,346,912	239,373	7,586,285
Disposals	(1,186,586)	-	(1,186,586)
At 31 December 2022	18,671,915	239,373	18,911,288
<i>Amortisation</i>			
At 1 January 2021	1,010,498	-	1,010,498
Amortisation charge for the year	2,154,711	-	2,154,711
At 31 December 2021	3,165,209	-	3,165,209
Amortisation charge for the year	2,384,795	-	2,384,795
Disposals	(1,186,586)	-	(1,186,586)
At 31 December 2022	4,363,418	-	4,363,418
<i>Net book value</i>			
At 31 December 2022	14,308,497	239,373	14,547,870
At 31 December 2021	9,346,380	-	9,346,380
At 1 January 2021	11,507,008	-	11,507,008

Amortisation charges for software licences represent cost relating directly to the Group's revenue and, therefore, they have been charged through cost of sales in the statement of profit and loss and other comprehensive income.

18. Investments

Company	Investment in subsidiary undertakings £
<i>Cost</i>	
At 1 January 2021	627,350
Capital contribution relating to share-based payments	713,267
At 31 December 2021	1,340,617
Capital contribution relating to share-based payments	89,485
At 31 December 2022	1,430,102
<i>Impairment</i>	
At 1 January 2021	102,016
At 31 December 2021	102,016
At 31 December 2022	102,016
<i>Net book value</i>	
At 31 December 2022	1,328,086
At 31 December 2021	1,238,601
At 1 January 2021	525,334

See note 19 for details of the Company's subsidiaries.

19. Subsidiaries

The Group's subsidiaries at 31 December 2022 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of business/ country of incorporation	Registered office address	Principal activities	Ownership interest held by the Group		
				31 December 2022 %	31 December 2021 %	1 January 2021 %
Sondrel (Shanghai) IC Design Services Co Limited	China	See 1 below	Provision of design services	-	-	100
Sondrel Limited	UK	See 2 below	Provision of design services	100	100	100
Sondrel (Xian) Company Limited*	China	See 3 below	Provision of design services	100	100	100
Sondrel Morocco SARL AU	Morocco	See 4 below	Provision of design services	100	100	100
Sondrel Inc	USA	See 5 below	Provision of design services	100	100	100
Sondrel (SOC Solutions) Ltd	UK	See 2 below	Provision of design services	100	100	100
Sondrel India Pvt. Limited	India	See 7 below	Provision of design services	100	100	100

Reference Registered office address

- 1 Rm 609, Regus office, Chamtime Tower C, 2888 Jinke Road, Pudong New District, Shanghai, 201203
- 2 Sondrel House, Theale Lakes Business Park, Moulden Way, Reading, RG7 4GB
- 3 Room 2303-4, CapitaMalls, 64A, Western Part of South Second Ring Road, Xi'an, 710065
- 4 Batiment B4, 1st Floor, Morocco, Technopolis, 11 100
- 5 2445 Augustine Drive, Suites 150 & 201, Santa Clara, California 95054
- 6 Unit 1, 11th Floor, MyHome Twitza, HITEC City, Ranga Reddy District, Hyderabad, Telangana 500081

*Held indirectly through Sondrel Limited.

For the year ended 31 December 2022, Sondrel (SOC Solutions) Ltd has taken advantage of the exemption from audit as conferred by Section 479A of the Companies Act 2006.

20. Inventories

	Group 2022 £	Group 2021 £	Group 1 January 2021 £	Company 2022 £	Company 2021 £	Company 1 January 2021 £
Work in progress	1,044,069	-	-	-	-	-
Total	1,044,069	-	-	-	-	-

Work in progress represent goods purchased but not yet invoiceable. For the year ended 31 December 2022, the balance of £1m relates to a single customer contract.

Notes forming part of the Consolidated Financial Statements *continued*

21. Trade and other receivables

	Group 2022 £	Group 2021 £	Group 1 January 2021 £	Company 2022 £	Company 2021 £	Company 1 January 2021 £
<i>Current trade and other receivables</i>						
Trade receivables	3,138,895	2,232,781	2,921,746	-	-	-
Contract receivables	5,972,166	152,736	19,179	-	-	-
	9,111,061	2,385,517	2,940,925	-	-	-
Allowance for expected credit losses	(91,306)	-	-	-	-	-
	9,019,755	2,385,517	2,940,925	-	-	-
Amounts owed by group undertakings	-	-	-	-	2,471,290	2,407,391
Other receivables	827,928	546,330	564,795	186,549	-	-
Prepayments and accrued income	349,441	75,094	159,908	2,790	-	-
Total	10,197,124	3,006,941	3,665,628	189,339	2,471,290	2,407,391
<i>Non-current trade and other receivables</i>						
Amounts owed by group undertakings	-	-	-	19,272,024	-	-
Total	-	-	-	19,272,024	-	-

Amounts owed by group undertakings are unsecured and attract interest at 4% (2021: 4%, 1 January 2021: 4%). They have been reclassified as non-current as management does not expect them to be settled within 12 months of the statement of financial position date.

The Group measures the loss allowance for accounts receivable at an amount equal to lifetime expected credit losses. The expected credit losses on accounts receivable are estimated using a provision matrix prepared by reference to the past account aging records of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtor and an assessment of the gross domestic product growth rate, unemployment rate and industrial indicators at the reporting date.

The Group estimates expected credit losses based on the number of days that receivables are past due. As the Group's historical credit losses experience does not show significantly different loss patterns for different customer segments, the provision for losses based on past due status of receivables is not further distinguished between the Group's different customer base; poor credit rating customers that have accounts receivable balances past due over 90 days are provided with full amount of loss allowance.

See note 27 for the provision matrix on expected credit losses.

22. Cash and cash equivalents

Cash and cash equivalents for the purpose of the statement of cash flows, comprises:

	Group 2022 £	Group 2021 £	Group 1 January 2021 £	Company 2022 £	Company 2021 £	Company 1 January 2021 £
Cash at bank and in hand	4,449,812	29,797	110,069	11,356	43	-
Less bank overdrafts (note 24)	-	(1,273,516)	(741,348)	-	-	-
Total	4,449,812	(1,243,719)	(631,279)	11,356	43	-

Cash at bank earns interest at floating rates based on daily bank deposit rates.

23. Deferred taxation

Group	Property, plant and equipment £	Share-based payments £	Short-term timing differences £	Losses £	Total £
Net asset/(liability) at 1 January 2021	-	-	-	-	-
Net asset/(liability) at 31 December 2021	-	-	-	-	-
(Charge)/credit to consolidated statement of profit and loss and other comprehensive income	(41,792)	317,340	(33,141)	2,882,404	3,124,811
Net asset/(liability) at 31 December 2022	(41,792)	317,340	(33,141)	2,882,404	3,124,811

The deferred tax asset and liability balances at 31 December 2022 have been calculated on the basis that the associated assets and liabilities will unwind at 25% (2021: nil, 1 January 2021: nil).

In the opinion of the Directors, there will be sufficient future taxable profits against which to off-set the deferred tax assets so the full balance of £3,199,744 has been recognised.

Company	Share-based payments £	Losses £	Total £
Net asset at 1 January 2021	-	-	-
Net asset at 31 December 2021	-	-	-
Credit to statement of profit and loss and other comprehensive income	317,340	173,282	490,622
Net asset at 31 December 2022	317,340	173,282	490,622

At 31 December 2021 and 1 January 2021, deferred tax assets relating to temporary differences of the following were not recognised because the Directors were not certain that there would be sufficient future taxable profits against which to off-set the deferred tax assets:

	Group 2021 £	Group 1 January 2021 £	Company 2021 £	Company 1 January 2021 £
Share-based payments	50,134	86,949	50,134	86,949
Research and development	203,411	92,926	-	-
Losses	1,447,884	481,917	-	-
Total	1,701,429	661,792	50,134	86,949

Notes forming part of the Consolidated Financial Statements *continued*

24. Trade and other payables

	Group 2022 £	Group 2021 £	Group 1 January 2021 £	Company 2022 £	Company 2021 £	Company 1 January 2021 £
Current trade and other payables						
Trade payables	586,072	927,100	634,240	37,437	-	-
Bank overdraft	-	1,273,516	741,348	-	-	-
Social security and other taxes	432,596	2,685,136	2,166,102	-	-	-
Other payables	4,514,832	4,427,547	879,572	-	-	-
Accruals	3,390,621	411,097	581,298	3,232	-	-
Contract liabilities	5,753,646	224,189	37,494	-	-	-
Total	14,677,767	9,948,585	5,040,054	40,669	-	-
	Group 2022 £	Group 2021 £	Group 1 January 2021 £	Company 2022 £	Company 2021 £	Company 1 January 2021 £
Non-current trade and other payables						
Other payables	9,984,228	6,791,294	10,555,114	-	-	-
Total	9,984,228	6,791,294	10,555,114	-	-	-

Trade payables are non-interest bearing and are normally settled on 60-day terms.

The overdraft facility is secured by way of a fixed and floating charge over all assets.

Other payables represent the amounts owed in relation to the acquisition of software licences and are repayable in staged instalments over 3 years. An effective interest rate of 4.68% to 7.56% has been charged on this payables balance. The rate is determined by each part of the contract.

25. Borrowings

	Group 2022 £	Group 2021 £	Group 1 January 2021 £	Company 2022 £	Company 2021 £	Company 1 January 2021 £
Short-term borrowings included under current liabilities						
Bank loans	-	1,351,042	58,333	-	-	-
Total	-	1,351,042	58,333	-	-	-
	Group 2022 £	Group 2021 £	Group 1 January 2021 £	Company 2022 £	Company 2021 £	Company 1 January 2021 £
Non-current borrowings						
Bank loans	-	440,625	1,341,667	-	-	-
Shareholder loan	700,000	700,000	700,000	700,000	700,000	700,000
Total	700,000	1,140,625	2,041,667	700,000	700,000	700,000

Borrowings relate to the following:

- A bank loan of £nil (2021: £1,400,000, 1 January 2021: £1,400,000) was received under the UK Government's Coronavirus Business Interruption Loan Scheme ("CBILS") during 2020. The loan bore interest of the Bank of England base rate plus 4% and under the terms of the CBILS, the UK Government paid the interest for the first 12 months of the loan before the Group taking on the payment of the interest for the remaining term. This loan was fully repaid in November 2022.
- A bank loan of £nil (2021: £450,000, 1 January 2021: £nil) was received under the UK Government's Recovery Loan Scheme ("RLS") in 2021. This loan was fully repaid in November 2022. The loan bore interest of the Bank of England base rate plus 3.99%.
- The shareholder loan is unsecured, attracts interest at a rate of 4% (2021: 4%, 1 January 2021: 4%) and was scheduled to be fully repaid in 2020. During the prior year, the term of the loan was extended with the loan now scheduled for repayment in 2025.

The bank loan is secured by way of fixed and floating charges over the assets of the Group. Due to a breach in loan covenants, the CBILS was presented within current liabilities as at 31 December 2021.

26. Lease liabilities

Group	2022 £	2021 £	1 January 2021 £
Maturity analysis – contractual undiscounted cash flows			
In one year or less	327,966	293,117	308,154
Between one and five years	318,709	266,621	257,272
In five years or more		-	-
Total undiscounted lease liabilities at 31 December	646,675	559,738	565,426
Short-term lease liabilities included within current liabilities	291,124	276,788	248,290
Non-current lease liabilities	307,944	258,794	243,003
Lease liabilities included in the statement of financial position	599,068	535,582	491,293
Amounts recognised in the comprehensive income statement			
Interest expense on lease liabilities	14,629	19,527	
Depreciation expense on right-of-use assets	310,177	302,953	
Expenses relating to short term leases	95,379	68,312	
Net amount recognised in the comprehensive income statement	420,185	390,792	
Amounts recognised in the statement of cash flows			
Payment of principal portion of lease liabilities	269,838	285,000	
Interest paid on lease liabilities	24,833	19,527	
Total cash outflow recognised under cash flows from financing activities	294,671	304,527	

During the years ended 31 December 2022 and 31 December 2021 there were no variable lease payments to be included in the measurement of lease liabilities and there were no sale and leaseback transactions. There was no income from subleasing right-of-use assets in the year.

27. Financial instruments

The Group's financial liabilities comprise trade and other payables, lease liabilities and borrowings. The main purpose of these financial liabilities is to finance the Group's operations. The Group's financial assets include trade and other receivables, and cash and cash equivalents that derive directly from its operations. The carrying value of all financial assets and liabilities held at amortised cost are a reasonable approximation of their fair value.

	Financial assets measured at amortised cost					
	Group 2022 £	Group 2021 £	Group 1 January 2021 £	Company 2022 £	Company 2021 £	Company 1 January 2021 £
Current financial assets						
Cash and cash equivalents	4,449,812	29,797	110,069	11,356	43	-
Trade receivables	3,138,895	2,232,781	2,921,746	-	-	-
Amounts owed by group undertakings	-	-	-	-	2,471,290	2,407,391
Other receivables	-	25,947	65,687	-	-	-
Contract receivables	5,972,166	152,736	19,179	-	-	-
Total	13,560,873	2,441,261	3,116,681	11,356	2,471,333	2,407,391
Non-current financial assets						
Amounts owed by group undertakings	-	-	-	19,272,024	-	-
Total	-	-	-	19,272,024	-	-

	Financial liabilities measured at amortised cost					
	Group 2022 £	Group 2021 £	Group 1 January 2021 £	Company 2022 £	Company 2021 £	Company 1 January 2021 £
Current financial liabilities						
Bank overdrafts	-	1,273,516	741,348	-	-	-
Trade payables	586,072	927,100	634,240	37,437	-	-
Other payables	4,514,832	4,427,547	879,572	-	-	-
Accruals	3,390,621	411,097	581,298	3,232	-	-
Contract liabilities	5,753,646	224,189	37,494	-	-	-
Short-term borrowings	-	1,351,042	58,333	-	-	-
Short-term lease liabilities	291,124	276,788	248,290	-	-	-
Total	14,536,295	8,891,279	3,180,575	40,669	-	-
Non-current financial liabilities						
Other payables	9,984,228	6,791,294	10,555,114	-	-	-
Borrowings	700,000	1,140,625	2,041,667	700,000	700,000	700,000
Lease liabilities	307,944	258,794	243,003	-	-	-
Total	10,992,172	8,190,713	12,839,784	700,000	700,000	700,000

Financial instruments risk management objectives and policies

The main risks arising from the Group's operations are market risk, credit risk and liquidity risk, however other risks are also considered below. The Group's senior management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group's exposure to market risk comprised of only currency risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency).

The financial assets and liabilities that are exposed to currency risk are trade receivables, trade payables and other payables.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in GBP, was as follows:

	2022		2021	
	USD £	EUR £	USD £	EUR £
Trade and other receivables	310,056	1,437,161	362,845	26,484
Cash and cash equivalents	307,994	1,749	143	301
Trade and other payables	(40,303)	(86,191)	(1,002,214)	(164,385)
Total	577,747	1,352,719	(639,226)	(137,600)

The following tables demonstrate the sensitivity of profit and equity to a reasonably possible change in USD and EUR exchange rates, with all other variables held constant. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in USD rate	Effect on profit before tax and equity £	Change in EUR rate	Effect on profit before tax and equity £
As at 31 December 2022	2%	11,555	2%	26,790
As at 31 December 2021	2%	12,785	2%	2,752

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The carrying amount of the Group's financial assets represents its maximum exposure to credit risk.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Outstanding customer receivables and contract receivables are regularly monitored.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of the various customers. In making this assessment, the Group considers historical experience of write-offs, which are insignificant, and forward-looking information available at the time of the assessment. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from Management's knowledge, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

Notes forming part of the Consolidated Financial Statements *continued*

Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is their carrying value.

The Group has assessed the credit risk of its financial assets and has determined that an ECL of £91,306 is required at the year-end (2021: £24,013, 1 January 2021: £29,577).

The Group's provision matrix is as follows:

	Current	< 30 days	31-60 days	> 60 days	Total
31 December 2022					
Expected credit loss % range	1.0%	1.0%	1.1%	1.0%	
Gross carrying amount – trade receivables (£)	2,438,200	592,624	-	108,071	3,138,895
Gross carrying amount – contract receivables (£)	5,972,166	-	-	-	5,972,166
	8,410,366	592,624	-	108,071	9,111,061
Loss allowance	84,180	6,004	-	1,122	91,306

	Current	< 30 days	31-60 days	> 60 days	Total
31 December 2021					
Expected credit loss % range	1.0%	1.0%	1.5%	1.0%	
Gross carrying amount – trade receivables (£)	1,403,351	829,430	-	-	2,232,781
Gross carrying amount – contract receivables (£)	152,736	-	-	-	152,736
	1,556,087	829,430	-	-	2,385,517
Loss allowance	15,575	8,438	-	-	24,013

	Current	< 30 days	31-60 days	> 60 days	Total
1 January 2021					
Expected credit loss % range	1.0%	1.0%	1.5%	1.0%	
Gross carrying amount – trade receivables (£)	2,529,007	247,764	-	144,975	2,921,746
Gross carrying amount – contract receivables (£)	19,179	-	-	-	19,179
	2,548,186	247,764	-	144,975	2,940,925
Loss allowance	25,519	2,548	-	1,150	29,577

No expected credit loss provision was recognised at 31 December 2021 or 1 January 2021 based on lifetime expected credit losses because the amount was not material.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing its liquidity is to ensure, as far as possible, that it has sufficient liquidity available to meet its liabilities when due, both under normal and adverse economic conditions, without incurring unacceptable losses or risking damage to its reputation. The Group monitors and manages cash within its banking facilities and includes a cashflow forecast in its budgets and its sensitivity analysis.

The following table details the contractual maturity of the Group's financial liabilities based on the dates the liabilities are due to be settled:

	Within 1 year £	1 to 2 years £	2 to 5 years £	Total contractual cash flows £	Carrying amount £
Trade payables	586,072	-	-	586,072	586,072
Other payables	5,333,442	5,333,442	5,333,439	16,000,323	14,499,060
Accruals	3,390,621	-	-	3,390,621	3,390,621
Contract liabilities	5,753,646	-	-	5,753,646	5,753,646
Borrowings	700,000	-	-	700,000	700,000
Lease liabilities	327,966	318,709	-	646,675	599,068
At 31 December 2022	16,091,747	5,652,151	5,333,439	27,077,337	25,528,467

	Within 1 year £	1 to 2 years £	2 to 5 years £	Total contractual cash flows £	Carrying amount £
Bank overdrafts	1,273,516	-	-	1,273,516	1,273,516
Trade payables	927,100	-	-	927,100	927,100
Other payables	4,427,547	6,791,294	-	11,218,841	11,218,841
Accruals	411,097	-	-	411,097	411,097
Contract liabilities	224,189	-	-	224,189	224,189
Borrowings	1,456,841	202,015	1,137,082	2,795,938	2,491,667
Lease liabilities	293,117	266,621	-	559,738	535,582
At 31 December 2021	9,013,407	7,259,930	1,137,082	17,410,419	17,081,992

	Within 1 year £	1 to 2 years £	2 to 5 years £	Total contractual cash flows £	Carrying amount £
Bank overdrafts	741,348	-	-	741,348	741,348
Trade payables	634,240	-	-	634,240	634,240
Other payables	879,569	3,652,841	6,902,276	11,434,686	11,434,686
Accruals	581,298	-	-	581,298	581,298
Contract liabilities	37,494	-	-	37,494	37,494
Borrowings	142,885	433,758	1,732,755	2,309,398	2,100,000
Lease liabilities	308,154	257,272	-	565,426	491,293
At 1 January 2021	3,324,988	4,343,871	8,635,031	16,303,890	16,020,359

Notes forming part of the Consolidated Financial Statements *continued***Capital risk management**

The Group's main objective when managing capital is to protect returns to shareholders by ensuring it will continue to trade for the foreseeable future. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Group meets its objectives for managing capital by re-investing profits to enhance future growth.

The Group considers its capital to include cash and equity.

28. Share-based payments

The Group has an HMRC approved share options scheme for certain employees. Each option entitles the holder to purchase one share at a set exercise price and is an equity-settled transaction. Options are forfeited if the employee leaves the Group before the options vest. The options would only vest on change of ownership of the Group.

The Group uses the Black Scholes model in arriving at the fair value at grant date for the options granted in the period due to no market conditions being attached to the shares.

The following principal assumptions have been used in the valuations at grant date for each option:

	Range
Share price at grant date	£1.52 - £3.81
Volatility	4.0% - 47.8%
Option life	0.11 - 5 years
Dividend yield	0%
Risk-free rate	0.71% - 3.15%
Exercise price at grant date	£0.001 - £2.00
Fair value per option at grant date	£0.45 - £2.36

The expected volatility was determined by calculating the historical volatility of the Group's share price over the previous period corresponding with the expected vesting period, with the share price determined by applying a revenue multiple. The total expense in respect of the options amounted to £89,485 (2021: £713,267).

A reconciliation of share option movements over the year to 31 December 2022 is shown below:

	2022		2021	
	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)	Number of options
Group and Company				
Outstanding at the beginning of the year	1.16	741,575	1.07	591,575
Granted during the year	0.23	4,579,450	1.50	150,000
Forfeited during the year	1.50	(851,575)	-	-
Exercised during the year	0.001	(1,029,450)	-	-
Outstanding at the end of the year	0.18	3,440,000	1.16	741,575
Exercisable at the end of the year	0.18	3,440,000	-	-

The weighted average remaining contractual life for the share options outstanding at the end of the year was 7 years (2021: 7 years).

The range of exercise prices for options outstanding at the end of the year was £0.25 (2021: £0.001 - £1.50).

29. Share capital

Group and Company	Allotted, called up and fully paid					
	2022 Number	2021 Number	1 January 2021 Number	2022 £	2021 £	1 January 2021 £
Ordinary shares of £0.001 each	87,461,772	166,895	166,895	87,462	167	167
Ordinary A shares of £0.001 each	-	8,117,886	8,117,886	-	8,178	8,178
Total	87,461,722	8,344,781	8,344,781	87,462	8,345	8,345

In the prior year, there were two distinct classes of shares; Ordinary and Ordinary A.

Ordinary A shares were prescribed one vote per share. Ordinary shares did not hold the right to attend or vote at general meetings. The Ordinary shares had second right on wind up to the assets of the Company.

On 8 September 2022, the Company issued and allotted 40,889,430 A Ordinary shares at a price of £0.001 per share, for no consideration. The Company also issued and allotted 834,475 Ordinary shares at a price of £0.001 per share, for no consideration. This bonus share issue, carried out on a 5 for 1 basis via capitalisation from retained deficit, was done in order to increase the share capital to meet the minimum requirements of £50,000 for registration to plc status. Immediately following that issue and allotment, the issued share capital of the Company was comprised of 50,068,686 shares.

Pursuant to the IPO placing on 21 October 2022, all A Ordinary shares were reclassified as Ordinary shares.

On the same day, 36,363,636 Ordinary shares were issued and allotted at a price of £0.001 per share, for total consideration of £0.55 per share, to certain new investors. Additionally, 1,029,450 share options over Ordinary shares were exercised by a Company employee at an exercise price of £0.001 per share.

Immediately following this issue and allotment, the Company's issued share capital increased to 87,461,772 Ordinary shares. All shares are equally eligible to receive dividends, the repayment of capital on winding up of the Company and represent one vote at the shareholders' meeting of the Company.

30. Reserves

Group and Company

Share premium

This reserve represents the excess paid for share capital over and above the nominal value of the share capital.

Foreign currency translation reserve (Group only)

This reserve contains movements in relation to translation of foreign operations.

Share-based payment reserve

This reserve contains movements in relation to share-based payments.

Retained earnings/deficit

This reserve relates to movements in the cumulative profits and losses less amounts distributed to shareholders. The Directors have proposed that there will be no final dividend in respect of the year ended 31 December 2022 (2021: £nil).

Notes forming part of the Consolidated Financial Statements *continued*

31. Notes to the cashflow statement

Reconciliation of cash used in operations

	2022 £	2021 £
Cash flows from operating activities		
Loss after taxation	(3,191,901)	(5,456,387)
Adjustments for:		
Depreciation of property, plant and equipment	83,845	79,402
Depreciation of right-of-use assets	310,177	302,953
Amortisation of intangible assets	2,384,795	2,154,711
Loss on disposal of property, plant and equipment	397	6,180
Loss on disposal of right-of-use assets	6,600	-
Unrealised foreign currency (losses)/gains	(71,333)	6,447
Finance costs	1,175,510	520,777
Finance income	(30)	(724)
Income tax credit	(94,924)	(74,711)
Movement in deferred taxes	(3,124,811)	-
Share-based payment charge	89,485	713,267
Working capital adjustments:		
(Increase)/decrease in trade and other receivables	(7,340,209)	666,255
Increase in trade and other payables	5,863,702	821,086
Increase in inventories	(1,044,069)	-
Cash used in operations	(4,952,766)	(260,744)

Reconciliation of net debt

	1 January 2022 £	Cash flows £	Non-cash changes £	31 December 2022 £
Cash and cash equivalents	29,797	4,420,015	-	4,449,812
Bank overdrafts	(1,273,516)	1,273,516	-	-
Bank loans	(2,491,667)	1,791,667	-	(700,000)
Lease liabilities	(535,582)	(294,671)	231,185	(599,068)
Total	(4,270,968)	7,190,527	231,185	3,150,744

All bank loans are presented gross of capitalised loan costs.

32. Related party transactions

Group

Transactions with key management personnel

Key management personnel information is disclosed in Note 9.

Other transactions

Nigel Vaughan, a Director of the Company prior to the IPO, provided services via a consultancy agreement through Vaughan Management Solutions Limited (a company wholly owned by Nigel Vaughan). The value of the services provided was £19,644 (2021: £12,000) of which £9,999 related to services provided in relation to the IPO and was accrued in 2022. The amount outstanding as at 31 December 2022 was £9,999 (2021: £4,234). On the successful IPO, Nigel Vaughan was appointed a non-executive Director and is now paid directly through the Company run payroll.

At 31 December 2022, the Group had a loan of £700,000 (31 December 2021: £700,000, 1 January 2021: £700,000) owed to a shareholder of the Group. The loan is unsecured, incurs interest at a rate of 4%, and is due to be repaid in 2025. During the year £27,923 of interest (2021: £27,923) was paid and recognised within interest payable.

The Group sells and purchases services from a related party to the Group (shareholder). No sales were made in 2022 and the sales in 2021 related to consultancy work the Group carried out for the shareholder. The purchases relate to the EDA software used in the Group's project work. The total value of these services and amounts outstanding at the end of the year are summarised in the following table:

	2022 £	2021 £
Sales	-	38,830
Amounts receivable at the end of the year	-	5,610
Purchases	403,962	360,000
Amounts payable at the end of the year	7,038	222,341

33. Commitments and contingencies

There were no commitments or contingencies at the reporting date.

34. Ultimate controlling party

In the opinion of the Directors, there is no ultimate controlling party.

35. Events after the reporting period

There are no events subsequent to the reporting date which would have a material impact on the financial statements.

36. Parent company guarantees

The Company is providing Sondrel (SOC Solutions) Ltd (as disclosed in note 19 and which is included within these Group consolidated financial statements) with guarantee of its debts in the form prescribed by Section 479C of the Companies Act 2006 ("the Act") such that it can claim exemption from requiring an audit in accordance with section 479A of the Act. This guarantee covers all of the outstanding actual and contingent liabilities of that company as at 31 December 2022.

Company Information, Officers & Professional Advisers

REGISTERED OFFICES:

Sondrel Holdings plc

Sondrel House, Theale Lakes Business Park, Moulden Way,
Sulhamstead, Berks RG7 4GB
Registered in England/Wales Company no. 07275279

COMPANY SECRETARY:

ONE Advisory Limited

Temple Chambers 3-7 Temple Avenue, London EC4Y 0DT

NOMINATED ADVISER & BROKER:

Cenkos Securities plc

6 7 8 Tokenhouse Yard, London EC2R 7AS

AUDITOR:

CLA Evelyn Partners Limited

45 Gresham Street, London EC2V 7BG

LAWYER:

BDB Pitmans LLP

One Bartholomew Close, London EC2A 4ES

REGISTRAR:

Link Market Services Limited

10th Floor, Central Square, 29 Wellington Street,
Leeds LS1 4DL

Sondrel Limited

Sondrel House, Theale Lakes Business Park, Moulden Way,
Sulhamstead, Berks RG7 4GB, UK
Registration no: 04491953

Sondrel (SOC Solutions) Ltd

Sondrel House, Theale Lakes Business Park, Moulden Way,
Sulhamstead, Berks RG7 4GB, UK
Registration no: 10246519

Sondrel Inc

2445 Augustine Drive, Suites 150 & 201, Santa Clara,
California 95054, USA
Registration no: 3661476

Sondrel India Pvt. Limited

Unit 1, 11th Floor, MyHome Twitza, HITEC City, Ranga Reddy
District, Hyderabad, Telangana 500081, India
Registration no: U74999TG2017PTC117059

Sondrel Morocco SARL AU

Batiment B4, 1st Floor, Morocco, Technopolis, 11 100,
Morocco
Registration no: 23953

Sondrel (Xian) Company Limited

Room 2303-4, CapitaMalls, 64A, Western Part of South
Second Ring Road, Xi'an, 710065, China
Registration no: 91610131673292132F

DIRECTORS:

Nigel Vaughan *Non-Executive Chair*
Graham Curren *Chief Executive Officer*
Joe Lopez *Chief Financial Officer*
Adrian Carey *Non-Executive Director*
Sherry Madera *Non-Executive Director*
Gordon Orr *Non-Executive Director*



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