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Chairman's statement

Overview

Since the formation of CloudCoCo Group plc in 2019, the business has been on a journey towards excellence and has consistently delivered against its objectives. We have viewed the development of the business in phases, defined internally as:

- Get Well
- Get Fit
- Get Bigger

This year saw us enjoy the benefits of the 'Get Well' phase, implemented in 2020, which allowed us to concentrate on the 'Get Fit' and 'Get Bigger' phases of our plan, resulting in a greater focus on new business development and the acquisition of four companies towards the end of FY21 and the beginning of FY22 as detailed below.

As we have progressed through each phase, we have maintained our focus on four key areas. These are: accelerate sales, maintain excellent support levels, maintain cost vigilance and improve the cash position.

In September 2021, the Company raised £2.1m to fund acquisitions to broaden its service offering, increase revenue, and provide scope for a substantial increase in profitability going forward. The additional funds will be used for the integration of the acquisitions and to strengthen the balance sheet and working capital.

This laser focus by our leadership team, led by our CEO Mark Halpin, has been delivering improvements day-by-day, project-by-project and has successfully built a strong platform for long-term, sustainable growth. We have reduced our costs, improved our customer service levels, and secured new business and multi-year renewals with existing customers, despite the considerable disruption caused by the pandemic.

Prior to year-end, as part of our plan to "Get Bigger", we acquired Systems Assurance Limited and More Computers Limited into the Group, to build on the success seen in FY21 through delivering Value Added Resale services to customers, and just after the year-end, we also acquired IDE Group Connect Limited and Nimoveri Limited, to support growth through the significantly enlarged customer base, technical capabilities and talented staff provided by these businesses.

The Group is currently working through an accelerated 'Get Well' programme for the newly acquired businesses, focusing on managing costs, driving efficiencies and realising synergy benefits, with a view to supporting sustainable, profitable growth.

We are delighted with the talented staff, customers, and new services that these most recent acquisitions have brought to the Group and are optimistic about how the combined business will perform.

People

Our colleagues old and new have demonstrated a fantastic dedication to our shared mission, particularly in the challenging circumstances posed by the pandemic. I would like to thank them all for their valuable contribution during the year.

CloudCoCo prides itself on its strong corporate culture which places an emphasis on cultivating the passion and creativity of our colleagues while always ensuring we are set apart by first-class customer service. Our colleagues who have joined the Group through acquisition and new hires have proven an excellent cultural fit and I am delighted to see them settle in well.

As a reflection of this inclusive culture and focus on improving the working lives of our people, we launched CoCo-One, our Group-wide people initiative encompassing a number of projects, during the period. This initiative includes a share options plan, currently providing qualifying employees with performance-based share options to align colleague incentivisation with shareholders' interests.

Other projects carried out during the year include investment into a new employee experience platform that increases employee engagement through regular surveys and polls, encouraging colleagues to provide instant feedback to each other from within our everyday business applications. Engaging with our colleagues allows us to make better decisions and drive meaningful change, taking all opinions into account.

Recognising the critical importance of our colleagues to our success, we always look to reward exceptional performance and do what we can to make CloudCoCo a great place to work. We look forward to welcoming our new colleagues onto the programme.

In line with our growth ambitions, the Group's senior leadership and advisory team has been strengthened significantly. As announced on 9 June 2021, we were pleased to welcome Darron Giddens as Chief Financial Officer and to the Board. Darron has been with the Group since 2009 and was promoted from his previous role as Group Finance Director. His transition has been seamless, and he has already played a vital role in integrating the acquisitions and further strengthening the finance function of the business following the recent acquisitions.

Chairman’s statement (continued)

Darron replaced Mike Lacey, who had joined the Board of Directors in January 2020 and played an important role in stabilising the Group's finances and cementing the foundations for long-term growth. I would like to wholeheartedly thank Mike for his contribution to the Group and wish him well in his future endeavours.

In June 2021 we announced the appointment of Nigel Redwood, former CEO of AIM-listed Nasstar PLC, as Strategic Consultant (a non-board position). Nigel’s experience leading high-growth IT and managed service businesses has proven highly valuable in executing the Group’s acquisition, integration and people strategies, and he continues to play an important role in assessing a pipeline of further acquisition opportunities.

Post-period, in October 2021, we also announced the appointment of Mark Ward, former founder and CEO of Hunter Macdonald, as a Strategic Adviser (a non-board position) to the Group. Mark’s wealth of experience scaling businesses in the technology sector has already proven extremely useful and I have no doubt he will continue to play a pivotal role in the Group’s development.

As announced post-period on 1 February 2022, we have appointed Mike Chester as Group Operations Director (a non-board position), to ensure CloudCoCo continues to provide the very highest standard of customer support as it expands. Mike has an extensive, 25-year track record of positioning organisations for operational success and has been responsible for the operational integration of acquisitions ranging from c. £3m to £40m and has played a pivotal role in the planning and delivery of over £5m of synergy savings and significant headcount expansion.

I would like to welcome these new appointments to CloudCoCo and we look forward to working with them in 2022 as we move through the next stage of the Company’s growth strategy.

Ambitions for this financial year

Having successfully met our key areas of focus for 2021, as detailed above, we now look forward to building on our progress and scaling the business as part of our “Get Bigger” strategy.

We approach the new year with the same objectives across the larger business, looking to replicate the good work done in managing costs and improving efficiency across our new acquisitions while integrating them into the Group.

While our teams are focused on driving new business development in the new year, we will continue to appraise further acquisition opportunities, only progressing those that have exceptional potential and are a good strategic fit.

Simon Duckworth

Chairman
6 March 2022

Chief Executive's Review

Introduction

CloudCoCo provides IT and communications solutions to organisations across the UK public and private sectors, enabling business optimisation and transformation, team-working, streamlined workflows and reduced costs. We collaborate with an extensive range of partners, service providers, distributors, and vendors.

The year under review has been a transformational period for the Group. Despite the persistence of national and local restrictions as a result of the pandemic, we have delivered a resilient financial performance. The Group achieved revenues of £8.1 million (FY20: £8.0 million) and total contract value of £5.2 million (FY20: £5.2 million). Cash at 30 September 2021 was £1.2 million (FY20: £0.6 million). I am particularly pleased with the progress we have made in Trading Group EBITDA[1], an important metric for the Group's progress, which increased over 185% to £745k (FY20: £261k).

Acquisitions

Supported by the appointment of Nigel Redwood during the period, we have significantly expanded the Group's offering and customer base through acquisitions and expect these to have a major long-term impact on the Group's ability to scale and compete against the larger players in our space.

In August 2021 we announced the acquisition of Systems Assurance Limited ("Systems Assurance"), an IT group comprised of a B2B value-added reseller ("VAR") and an automated B2C cloud-based VAR and IT managed service provider for an initial net consideration of £0.83m. This acquisition provides the Group with a proven, scalable hardware engine alongside expanding its IT managed services offering. Additionally, the acquisition of Systems Assurance provided the Group with a further 125 customers, offering the potential for up-sell and cross-sell from the Group's existing services. Importantly, the More Computers B2C e-commerce platform acquired provides us with automation capabilities and access to a large number of UK distributors and vendors that will benefit the wider Group in the coming years. The strategy this year is to further improve the More Computers engine in H1-FY22 and then launch a B2B version for our now circa 1,000 public and private business customers.

Post-period, in October 2021, we announced further acquisitions in the shape of IDE Group Connect Limited ("Connect"), a specialist cloud, advanced support, connectivity and co-location data centre provider and Nimoveri Limited, an IT managed services business, from IDE Group Holdings PLC for a combined deferred consideration of £250,000.

Connect significantly boosts the Group's overall offering, providing an additional 85 talented staff members, 33 data centres, an impressive lifecycle device management capability, circa 100,000 IPv4 addresses and a 100Gb fibre-network in London and the South of England. The Connect business recorded an adjusted EBITDA[2] loss of £0.7 million on revenues of £13.0 million in the audited accounts for the year to 31 December 2020. Our immediate focus has been to rapidly improve this business with a view to reaching profitability, which we expect to achieve during the second half of FY22. Following the acquisition, we engaged in an in-depth consultation with management and the wider team, including conducting a skills matrix survey to ensure we capitalise on the immense talent and technology available. We are now working through clear steps to realise synergistic benefits while growing sales. We believe that there is significant upside to be generated from the Connect business once we have completed the "Get Well" actions.

Progress against FY21 objectives

Accelerate sales

The business achieved revenues of £8.1m in the 12 months to 30 September 2021 in line with the prior year (FY20: £8.0m).

	2021 £'000	2020 £'000
Managed IT Services	**5,648**	6,131
Value added resale	**2,459**	1,839
Total Revenue	**8,107**	7,970

A key focus for the year was securing a greater number of multi-year contracts in order to provide the business with the enhanced security of contracted and committed revenues and the opportunity to develop its partnerships with customers long-term.

Total contract value ("TCV") measures the total revenue that we expect to generate from new customer contracts signed in the year over their contractual term. TCV remains an important indicator for the Group. This was flat relative to 2020 at £5.2m, predominantly due to the pandemic's impact on our Managed IT Services division.

[1] profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.

[2] adjusted EBITDA is defined by IDE as profit or loss before interest, tax, depreciation, amortisation, impairment charges, exceptional items, loss on disposal of fixed assets and share-based payments.

Chief Executive's Review (continued)

Our Managed IT Services division provides a range of IT infrastructure and services, enabling our customers to focus on their day-to-day business needs and priorities. The period under review was characterised by national and local lockdowns and restrictions as well as working from home measures. We experienced a slowdown and delay in customer decision making, primarily in H1, as a result of general uncertainty prompted by COVID-19 resulting in downsizing of license types and closure of locations by our end customers.

Despite this, and a few cancellations as a result of customers in trading difficulty, we have successfully navigated the effects of the pandemic to date and saw an increase in customer spend in Q4 2021 with positive signs moving through FY22. We secured 35 new logo customers in the period, and made key renewals with existing customers including Vantage Motor Group, Kings College London and boohoo.

We expect the healthy trading seen in Q4 of FY21 and into Q1 of the current financial year to continue as restrictions ease, face-to-face meetings become more frequent and organisations begin to increase their IT spend in the face of a more stable and certain external environment. We also expect our enhanced capabilities and increasing activity across our target markets to deliver greater returns.

Managed IT Services constitutes c.70% of the Group's revenues. In line with the normalisation of trading patterns post-pandemic, we expect this proportion to increase over the next few financial years.

Our Value Added Resale division provides a range of additional IT products and services. This division experienced strong demand for collaboration and cyber security solutions throughout the period as organisations across the public and private sectors adapted to home working measures. This includes existing customer boohoo, who expanded the range and depth of services they take from us during the year.

Maintaining excellent support levels

CloudCoCo is built around the ethos of providing the highest levels of support to our customers and going above and beyond expectations. There is no room for complacency, but I am delighted with the continually exceptional levels of customer support, contributing to a further reduction in customer churn.

Our excellent levels of support are further strengthened by the recent appointment of Mike Chester, as announced on 1 February 2022.

Maintain cost vigilance

Following our comprehensive spending review in FY20, we remain vigilant around the reduction of costs and optimising expenditure in the business, including our newly acquired businesses.

Improve cash position

We have performed excellently in our aim to improve the Group's cash position, supplemented by the Group's £2.1 million fundraise through a conditional placing in August 2021. During the period, cash increased to £1.18m (FY20: £0.6m), and we have significantly increased our Trading EBITDA[1] to £745k (FY20: £261k).

A portion of the proceeds from fundraising was utilised to pay down the £0.1 million working capital debt to MXC Capital.

The market

We target our services across all industries and sectors where there is a need for digital change. In line with wider market trends, we continue to observe a strong demand for our range of products across our four principal areas of expertise – cloud, collaboration, connectivity and cyber security.

While many organisations have adopted hybrid working patterns as a standard practice, as pandemic-related restrictions ease, we are now seeing organisations shift their focus towards optimising their core long-term communications and cyber security infrastructure.

Given the Group's position in the market, this represents a good opportunity and we expect to see demand for these services continue to grow across both the public and private sectors.

[1] profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments

Chief Executive's Review (continued)

Partnership ecosystem

A core element of CloudCoCo's business model is the development of its partnership ecosystem with world-class vendors and innovative technology partners. This represents a key competitive advantage for the Group, and it has continued to strengthen in this area in the period.

We are pleased to be one of a limited number of UK partners to be listed on the AWS (Amazon Web Services) Marketplace for Dynamic Cloud Security solutions, while THG Hosting, THG PLC's web hosting business also announced CloudCoCo as a UK partner in H2. During the year we have also progressed through status bands with our existing partners Fortinet, Lenovo, and Dell, as well as maintaining the 'Gold' partner status with Mitel.

Current trading and outlook

We have made an excellent start to H1 2022, recording a record sales performance in the first quarter. The Group's teams have done an outstanding job to achieve this, with total contract value from submitted sales in Q1 FY22 of £6.7 million representing 129% of the prior financial year. While in part due to the normalising of activity as COVID-19 related delays abate, it is also an important reflection of the strong foundations we have put in place in prior periods, including targeted marketing strategies and our new and improved website.

New business wins in the current year are drawn from a range of sectors including manufacturing, charity, accountancy and financial services. The Group continues to focus on winning longer and larger contracts and, as announced in November 2021, we secured a significant new contract worth approximately £3m over three years with a new customer in the digital transformation services industry with an additional £1m upside secured in December 2021. While we recognise the effects of COVID-19 are likely to continue to have a suppressing effect on customer confidence in the near-term, we are seeing positive signs as conditions normalise.

We now have around 1,000 customers and demand for our products remains strong, enhanced by the significantly enlarged service offering and customer base provided by the Group's recent acquisitions. In the immediate term we remain focused on using our experience to drive efficiencies in the acquired businesses and ensure they are seamlessly integrated into the Group.

As anticipated by the Board, the loss-making nature of Connect at acquisition is expected to impact Group profitability for the first half of FY22. A positive monthly contribution is expected from Connect later in FY22 as a result of the completion of decisive corrective actions, together with the transition to the accelerated 'Get Fit' phase of this business in the second half of the year. We are already making strong progress towards getting Connect to breakeven and see significant upside potential for this business.

In line with the 'Get Bigger' phase of our strategy, we will continue to appraise potential new acquisition opportunities, only progressing those with exceptional potential that would be a sound strategic and cultural fit.

With an enhanced service offering, significantly expanded customer base, a healthy financial position and a team of passionate, talented IT specialists, the future is exciting for CloudCoCo. I would like to thank all our colleagues, shareholders, partners and customers for their continued support, and look forward to providing a further update on FY22 at the interim results later this year.

Mark Halpin

Chief Executive Officer
6 March 2022

[1] profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.

Financial review

Placing

On 2 September 2021, the Company raised £2.1 million before expenses through a conditional placing arranged by Allenby Capital of 210,990,000 new Ordinary Shares at a price of 1 penny per share to fund growth by acquisition and provide additional working capital to fund the subsequent integration. The Placing was carried out at an approximate 13 per cent. discount to the Company's closing price of 1.15p per share on Monday 16 August 2021.

Acquisition of Systems Assurance Limited and More Computers Limited

On 6 September 2021, the Group acquired the entire share capital of Systems Assurance Limited and its wholly owned subsidiary More Computers Limited on a cash-free debt-free basis, for an initial cash consideration payment of £0.83 million before associated expenses. The initial consideration represented approximately four times the Trading EBITDA[1] of the acquired companies in the year to 31 December 2020, excluding remuneration costs of the vendors. Further details are provided in Note 22.

In return for assisting the Company integrate the acquired businesses into the Group and to provide an incentive for their continued support and advice, the vendors were issued with an aggregate of 4,000,000 share warrants between them, giving them the right to subscribe in cash for Ordinary Shares in the Group, at a subscription price of 1.5p per Ordinary Share, subject to certain pre-conditions during the ten-year exercise period, commencing 3 March 2022.

The pre-conditions to be satisfied on the exercise date are that i) the current market price of the Company is not less than 2 pence per share and ii) that the prior six-month revenues of the acquired businesses are at least £3.2 million, calculated in accordance with the share warrant agreement signed on 3 September 2021. Provided that the pre-conditions are met on the exercise date, the share warrants may be exercised in whole or part, subject to the vendors issuing a notice to the Company in agreed form during the exercise period.

Revenue and gross margin

Group revenue for the year to 30 September 2021 grew by 1% overall to £8.1 million (FY20 £8.0 million) with sales of Managed IT Services falling by 8% in the period, mainly as a result of the impact of COVID-19 and a reduction in the requirement for in-office managed IT solutions during lockdown and a customer reluctance to sign longer term IT service contracts with the uncertainty caused by the pandemic. The reduction in Managed IT Services was more than offset by a 34% increase in value added resale ("VAR") sales during the year, as UK business customers mobilised their workforce in order to work from home. This trend in customer spend shifted once more at the end of FY21 back towards Managed IT Services, as business customers took the opportunity to refresh their core IT infrastructure and invest in new cloud-based solutions. This shift in investment could be seen mainly from on-line and e-commerce related business and international service-related business customers with a requirement for 24 x 7 Managed IT support across multiple countries.

This produced a total gross profit of £3.2 million (FY20: £3.4 million) representing a gross margin of 39.7% (FY20: 42.9%). The reduction in margin related to the increase mix of VAR revenues, which has an element of third-party costs.

The analysis of revenue from each of our operating segments is shown in Note 3 and is detailed below.

Managed IT Services

Managed IT Services relate to the provision of recurring IT services which either have an ongoing billing and support element or utilise the technical expertise of our people.

Revenues from Managed IT Services were £5.6 million (FY20: £6.1 million) the reduction of £0.5 million being represented by incentives provided to customers for longer term renewals and a few cancellations at the end of their contractual term as a result of customers in trading difficulty during the pandemic. Managed IT Services generated a gross profit of £2.6 million (FY20: £3.0 million) and a gross margin of 46% (FY20: 49%). The reduction in the gross margin is due to the mix of services provided between in house and third party resources.

The proportion of our total revenue derived from Managed IT Services continued to be high at 70% (FY20: 77%).

Value added resale

VAR is the resale of one-time solutions (hardware and software) from our leading technology partners, including revenues from the More Computers e-commerce platform.

Revenues from VAR were £0.7 million higher than those in FY20 at £2.5 million (FY20: £1.8 million) due to hardware sales in advance of multi-year support contracts and assisting customers who were transitioning to home working. VAR generated a gross profit of £0.6 million (FY20: £0.4 million) and gross margin of 25% (FY20: 22%).

Financial review (continued)

Operating performance, costs and Trading Group EBITDA

As well as revenue, gross profit and cash balances, one of our main financial key performance indicators is our Trading Group EBITDA[1] – our operational trading performance before plc costs. This measure best equates to the cash profitability of the Group before plc costs, exceptional items and net finance expenses.

With sustainable recurring profits in mind, our core objectives for the financial year were to accelerate sales, maintain excellent support levels, maintain cost vigilance and improve cash position.

Excluding plc costs of £0.5 million (FY20: £0.5 million), our trading overheads[2] during the year fell by 22% over FY20 to £2.5 million (FY20: £3.2 million), of which staff costs comprised 85% (FY20: 81%). Following the COVID-19 pandemic, various measures were taken in the second half of FY20 and early FY21 to help protect the business, including temporary pay cuts and use of the Government furlough scheme.

In addition, a number of initiatives from the "Get Well" and "Get Fit" phases of our plan helped to improve trading performance. These included a review of customer profitability on a line-by-line basis - a process of re-matching and re-negotiating supplier costs at the individual service level. A further initiative saw us re-focus our technical service team as a separate cost-centre - as we challenged our Technical teams to cover their salary costs through additional chargeable time from customers as opposed to business as usual recurring support work.

The effect of focussing on the key objectives of increasing sales, reducing customer churn, reducing costs, and returning to net cash generation is described in the Chairman's Statement. Despite the continued uncertainty and disruption as a result of the pandemic, the Group reported a 285% improvement in underlying profitability as measured by Trading Group EBITDA[1] (2021: £0.7m; 2020: £0.3m). The acquisition of Systems Assurance Limited and More Computers Limited increased FY21 Trading Group EBITDA[1] in the year by £30,000, results for those companies being included since their acquisition on 3 September 2021.

Plc costs

Plc costs in the year remained in-line with FY20 at £0.5 million. These are non-trading costs, relating to the Board of Directors of the Parent Company, it's listing on the AIM Market of the London Stock Exchange and its associated professional advisors.

Exceptional Items

During the year we incurred certain costs which were not directly related to the generation of revenue and trading profits. Given their size and nature, they have been classified as exceptional items within the Consolidated Income Statement. These items totalled £0.4 million, of which £0.2 million relates to Systems Assurance Limited and More Computers Limited acquisition costs and £0.2 million relates to placing fees, integration and reorganisation costs. In the year to 30 September 2020, exceptional items were £0.5 million of which £0.3m related to the acquisition of CloudCoCo Limited and £0.2 million related to integration and reorganisation costs.

Net finance expenses, depreciation, amortisation and financial results for the full year

During the year the Group incurred net finance costs of £0.5 million (FY20: £0.5 million). £0.4 million of this was accrued interest on loan notes payable at the end of the loan notes' term. The Group incurred other non-cash costs including total amortisation and depreciation charges of £1.1 million (FY20: £1.7 million) and share-based payments charge of £217,000 (FY20: £26,000 credit). After accounting for a deferred tax charge of £0.1 million (FY20: £0.3 million credit) arising as part of business combinations but also impacted by the rise in corporation tax rates from 2023, the reported loss for the year after tax was £2.1 million compared to a loss after tax for the year to 30 September 2020 of £2.7 million.

Statement of Financial Position and cash

The Group had positive net assets at 30 September 2021 totalling £5.2 million (FY20: £5.0 million) and the cash position improved by £0.6 million to £1.2 million (FY20: £0.6 million). The placing, completed in September 2021, the underlying trading performance of CloudCoCo Limited and the subsequent acquisition of two cash generative businesses in Systems Assurance Limited and More Computers Limited, provides the business with a solid platform for growth.

Contract liabilities increased by £0.4 million to £1.3 million (FY20: £0.9 million) reflecting the success that the Group had during the year, signing customers onto new longer term recurring revenue contracts, billed in advance. A number of larger deals were signed towards the end of the financial year, reflected in the £1.1 million increase in Trade and other receivables at September 2021, compared to September 2020. This will benefit working capital in FY22 as these balances are received. In so far as possible, the Directors look to balance movements in trade receivables and trade payables throughout the year to maintain a consistent bank balance, hence the small outflow in net cash from operating activities before acquisition costs. Notes 13 and 25 show the ageing profile of both trade receivables and trade payables.

[2] trading overheads are the group's administrative costs excluding depreciation and amortisation, plc costs, exceptional items and share-based payments

Financial review (continued)

Statement of Financial Position and cash (continued)

In order to reduce interest expense and overall net debt, the Group repaid the £100,000 working capital loan from MXC Guernsey Limited ("MXCG") in September 2021. Overall Net debt reduced by £0.3 million to £2.9 million during the year. Net debt comprises cash balances of £1.2 million less the loan notes and rolled up interest of £3.9 million together with £0.1 million of lease liabilities and a COVID-19 Bounce Back Loan of some £50,000. The Trading Group EBITDA[1] of the business exceeded the loan note interest in the year by £0.3 million (FY20: a shortfall of £0.1 million).

CloudCoCo remains asset light, reflected in the £0.1 million carrying value of tangible assets at year-end (FY20: £0.2 million) and the costs of additional capex in the year of only £31k (FY20: £37k).

The Group had a net cash inflow during the year of £0.6 million (FY20: £0.3 million), the main components being:

- Small outflow in cash generated from operating activities excluding the costs of acquisition of £0.3 million;
- costs of £0.6 million (net of cash acquired) to acquire Systems Assurance Limited and More Computers Limited;
- proceeds of £2.1 million before associated costs of £0.2m from Placing in September 2021;
- repayment of MXCG working capital facility of £0.1 million; and
- repayment of lease liabilities in the year of £0.1 million.

Further details on the financial position of the Group are contained in the going concern section of the Directors Report on page 21.

[1] profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.

Risks and risk management

Principal risks and uncertainties

The Group is affected by a number of risks and uncertainties, not all of which are wholly within its control as they relate to the wider macroeconomic and legislative environment within which the Group operates. In addition, we have seen caution evident in some of our target markets due to the uncertainty surrounding Brexit.

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Responsibility for implementing sound and effective systems of internal control has been delegated by the Board to senior management. The purpose of the system of internal control is to manage and mitigate rather than entirely eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Directors have established an organisational structure with clear operating procedures, lines of responsibility and delegated authority. Each of the Trading entities share an effective leadership team with responsibility for sales, service and customer delight. There are clear procedures for capital investment appraisal and approval, contract risk appraisal and financial reporting within a comprehensive financial planning and accounting framework.

The Group's risk register is reviewed at least on an annual basis for additions, changes and mitigation strategies. This review is overseen by the Company Secretary, who ensures the appropriate level of action and reports by exception to the Board.

Given the size of the Group it is not considered necessary to establish an internal audit function.

The key financial risks of the Group are detailed in Note 25 to the consolidated financial statements. The key non-financial risks that the Group faces are listed below.

Non-financial risks

The key operational risk the Group faces is the general economic outlook. The Group has chosen to invest in a sector that has shown resilience through the economic cycle; however, there is no guarantee that this can continue and, should there be a reduction in demand in this sector, then revenues, margin, profitability and cash flow could all be affected adversely.

The following list highlights the key risks and uncertainties that the Group faces which it can seek to mitigate by a choice of appropriate strategies; however, this list is not intended to be exhaustive.

Covid-19

The global pandemic continues to create economic uncertainty across the globe and there is a risk of an impact on the Group's business environment and wider economy. To date, the Group has suffered only minor impacts from Covid-19 pandemic, in terms of operational performance, although multiple absentees due to Covid-19 at one time can put pressure on response times. In addition, the Group has seen a shift in the buying patten of UK business customers and has also experienced some delays in sales cycles for certain services as well as delays in project delivery as customers continue to assess the impact of Covid-19 on their own businesses.

Internally the Group has already demonstrated that it can operate successfully in a fully remote-working mode, with all staff working from home, as a result of its decision some years ago to transfer all operational systems to the Cloud. The Group was quick to facilitate home working for its staff and has provided uninterrupted support for its customers. The Group was equally pleased to provide commercial assistance to some of its loyal customers in the leisure and entertainment sectors during the lockdown. We look forward to continuing our working relationship with these customers as trading conditions improve.

The Group has also been able to support UK business customers as they transition to home working by helping to mobilise their workforce and to house their on-premise IT systems in our Data Centres, allowing them to vacate their expensive office premises but continue to operate services by facilitating their staff to work from home, using CloudCoCo's Cloud-based services.

The Group remains extremely grateful to staff who took temporary pay reductions. In addition, the Group has availed itself of the Job Retention Scheme "furlough" and deferred VAT and PAYE/NIC payments. We are pleased to announce that all deferred VAT and PAYE/HMRC deferred balances have now been fully repaid. The Group continues to carefully monitor guidance from health professionals and the Government and is prepared to update business and operational practices in accordance with the latest advice.

Brexit

The UK left the EU on 31 January 2020 and the transition period ended on 31 December 2020 with a trade deal between the UK and the EU which will avoid the imposition of duties and tariffs on the movement of goods. The Group purchases and provides the vast majority of its goods and services within the UK. However, some vendors reside outside the UK and it is possible that prices may be affected by exchange rate changes. Whilst there have not been any material issues at present, there is some uncertainty around the likely long-term impact of Brexit on businesses and the UK economy. The Group carefully monitors price risk and will ensure customer quotes enable prices to reflect exchange rate changes.

Risks and risk management (continued)

Non-financial risks (continued)

Energy crisis

The rising cost of oil has placed a lot of UK electricity providers in 'survival' mode and are consequently being forced to put up the price of power to business customers. A surge in the cost of power has hit many energy-intensive industries such as ceramics, chemicals and steel and for some energy-intensive industries, the cost of power has doubled in the last twelve months, forcing companies to cope with unprecedented cost increases. Ultimately, UK businesses will need to pass on some or all the cost of increased power costs to their customers and this has an impact on the overall UK economy. The Group relies on public energy-intensive cloud service providers such as Microsoft Azure, Amazon Web Services and Google to deliver services to its customers. In addition, the Group has a number of private cloud customers of its own, who house their servers securely within CloudCoCo run data centres. The current energy crisis causes uncertainty across many sectors and as such the Group continues to monitor UK energy prices on a regular basis. Where possible, the Group looks to fix energy prices for its customers by signing up to a term agreement with energy providers, but the risk remains for its UK business customers within impacted industries.

Reputational risk

The nature of the Group's business is such that it provides a service which its customers depend upon and any significant or lengthy period of service disruption would materially affect its customers and adversely impact upon the Group's reputation in the market.

The Group constantly monitors performance and availability and responds quickly to any service outages. Wherever possible it ensures that there are no single points of failure in its service delivery infrastructure and where there are these are clearly reflected in service levels made available to customers.

Commercial risk

The Group seeks to mitigate commercial and operational risks through operating policies, credit control procedures and strong relationships with customers and suppliers built on mutual trust.

The Group does have reliance on a number of suppliers for specific IT technologies. However, in such cases it seeks, where possible, to have alternative resellers open to it to purchase from and it also seeks to add value through its development capability which should reduce the risk of supplier loss.

Technology risk

The market in which the Group operates has the potential for significant technological change, which could undermine the Group's delivery capabilities.

The Group monitors technology developments through close links with suppliers and through a team with significant experience and expertise in this sector. This is augmented with the addition of product specialists, who are able to more readily identify new trends, product developments, etc. in their sphere of excellence, where deemed necessary.

Key resources

Commensurate with an organisation of the Group's size is the dependence placed upon certain key personnel, including executive and senior management who have significant experience within the Group and the IT sector and who would be difficult to replace.

The Group continues to seek to mitigate these risks through the continued strengthening of middle management in the key areas of finance, operations and technology and through the use of bonuses and employee share options to incentivise and reward key staff.

Contractual liabilities

In instances where the Group's services or products fail to meet agreed timescales or standards there is a risk that the Group will be exposed to claims for contractual liabilities as a result of failure.

The Group seeks to mitigate these risks through the following methods:

- contractual reviews prior to execution by legal advisers where the contract is material and differs from the Group's standard terms and conditions;
- where products or services are being resold, the Group seeks to take no additional risk by simply seeking to back terms and conditions from its suppliers; and
- only accepting a level of contractual liability which is commensurate with insurance policies and the value of the contract.

Risks and risk management (continued)

Reputational risk (continued)

Regulatory compliance

The Group provides services, some of which are in regulated markets, such as telecommunications. The Group must maintain compliance with applicable regulations. Regulated services may also be affected by price changes. In both cases, there is risk of an adverse impact on the Group's business, financial and operational position.

The Group carefully monitors proposed or adopted regulatory changes to assess the impact that such changes have on its business operations or its customers.

Malicious activity and data protection

The Group operates in the technology and software sector and as a result has information assets that could be compromised, disrupted or lost as a result of malicious activity.

The Group operates protective equipment to defend against malicious attacks and has staff policies in place to enforce good practice on data security.

Acquisitions

Integrating acquisitions and the associated change management can take a period of time. The Group may lose existing customers or the customers of an acquired entity as a result of an acquisition. The Group also may lose key personnel, either from the acquired entity or from itself, as a result of an acquisition.

The Group has an experienced management team, with a proven track record of integrating businesses and managing change. Appropriate due diligence is undertaken by the Company and its advisers prior to the completion of an acquisition and appropriate incentive schemes are put in place for certain key personnel.

Directors’ Duties - Section 172 Statement

The Directors acknowledge their duty under section 172(1) (a) to (f) of the Companies Act 2006 to promote the success of the Group. The Directors consider, in good faith, that they have both individually and collectively acted in such a way as to promote the success of the Group for the benefit of all stakeholders, and in doing so have regard (amongst other matters) to:

- The likely consequences of any action in the long term;
- The interests of the Group’s employees;
- The need to foster the Group’s business relationships with suppliers, customers and others;
- The impact of the Group’s operations on the community and the environment;
- The desirability of the Group to maintain a reputation for high standards of business conduct, and
- The need to act fairly as between members of the Group.

The Directors consider that the following are the Group’s key stakeholders: employees, customers, suppliers, shareholders, debt providers and the community.

<u>Having regard to the consequences of strategic and long term decisions</u>
The Directors hold regular Board meetings which are held monthly on scheduled calendar dates. The Executive Directors prepare Board papers that cover a full review of the Group’s financial performance, operational issues and plans and opportunities and threats in the external market. Board meetings are chaired by the Group’s non-executive Chairman, and all issues on the agenda are covered with the opportunity for additional matters to be raised. Matters reviewed at Board meetings include annual budgets and forecasts as well as consideration and approval of the interim and annual report and annual accounts. The principal decisions that arose from the Board meetings during the year have been included in the Chairman’s Statement and Financial review.

<u>Having regard to maintaining high standards of business conduct</u>
The Directors recognise the importance of operating a robust corporate governance framework and the Corporate Governance Report on pages 15 to 18 demonstrates how the Board complies with the Quoted Companies Alliance Corporate Governance Code (“the QCA Code”).

<u>Having regard to the interests of the employees</u>
The Group strives to create a diverse and inclusive working environment where every employee feels welcome and can do their best work. CloudCoCo believes in the benefits of diversity and the importance of bringing a wide range of skills, experience and perspectives into its business. The executive Directors continually work with senior management to promote the Group’s values. A prime concern for the Group during the year was the health and safety of its employees in response to the COVID-19 pandemic and a decision was taken to move to home working ahead of Government guidance and to provide necessary equipment to facilitate home working. The CEO regularly briefs employees on developments in the business and encourages suggestions from employees on how improvements to the business and working environment can be addressed. The Group also introduced a share options plan, providing qualifying employees with an aggregate of 48,225,000 performance-based share options to align colleague incentivisation with shareholders’ interests.

<u>Having regard to the fostering of relationships with customers and suppliers</u>
Customers
CloudCoCo aims to delight its customers and this sentiment is at the heart of everything it does. The Group engages with its customers to understand and exceed their expectations. Updates and feedback from customers as well as operational statistics are regularly reported to the Board. Key achievements in the year were improved support help desk answering times and reduced number of open customer support tickets.

Suppliers
The Board takes a close interest in relations with key suppliers whose performance is crucial to our success. The Group is committed to ensuring the highest standards and quality across its operations and requires both its suppliers and partners to operate to the same high standards.

<u>Having regard to the Company’s operations on the community and the environment</u>
The Board is mindful of the potential social and environmental impacts of the Group’s activities. The Board is committed to minimising the environmental effect of the Group’s activities wherever possible. The Group recycles paper and packaging and uses specialist recyclers of scrap telecommunications and IT equipment. The Group makes use of technologies to minimise the need to travel to meetings. Positive experience of these activities during the COVID-19 pandemic suggests these will continue at a higher level after the end of the pandemic than before.

<u>Having regard to the need to act fairly between members of the Group</u>
The Group’s intention is to behave responsibly towards all of its shareholders and treat them fairly and equally. The Group’s website has a section dedicated to investor matters that details amongst other things, all financial reports, press releases and other regulatory filings.

Strategic Report
This Strategic Report on pages 2 to 13 was approved by the Board of Directors on 6 March 2022 and signed on behalf of the Board of Directors by:

Mark Halpin
Chief Executive Officer

Board of Directors

Simon Duckworth OBE DL

Non-Executive Chairman

Simon Duckworth is Non-Executive Chairman. Simon holds a number of non-executive positions in the public and private sectors and is currently Chairman of Baring Targeted Return Fund and a Non-Executive Director of the Association of Police and Crime Commissioners. He was a Non-Executive Director of Fidelity's flagship European Investment Trust, Fidelity European Values plc, for a decade, and has sat on the boards of a number of AIM-quoted companies as a non-executive director, including Accumuli plc from 2010 until its sale to NCC plc in 2015.

A University of Cambridge graduate, Simon is a former Chairman of the City of London Police Authority, chaired the Economic Crime Board of the City of London Police and was the Senior Non-Executive Board Member at the Serious Fraud Office until December 2019.

Simon is the Chair of the Remuneration Committee and a member of the Audit Committee.

Jill Collighan

Non-Executive Director

A Chartered Certified Accountant, Jill has over 18 years of operational experience at plc board level specialising in finance, human resources, investor relations and corporate finance. As well as her role with CloudCoCo, Jill is CFO of one of the Group's major shareholders, MXC Capital Limited, a technology-focused adviser and investor. From 2004 to 2014 Jill was Chief Financial Officer of the AIM-quoted mobile technology provider 2ergo Group plc. Until January 2020, Jill also undertook the role of Interim Chief Financial Officer of the Group.

Jill is the Chair of the Audit Committee and a member of the Remuneration Committee.

Andy Mills

Non-Executive Director

Andy Mills over the past 25 years has managed and helped to grow numerous technology businesses. Andy co-founded Intrinsic Networks which he sold to a buy and build IT services company and has held a number of senior leadership positions. He has worked successfully in the technology industry as sales director and managing director and was most recently the sales director of Tax Systems plc which was a successful public company until it was taken private in 2019 by a private equity company. Andy was the chairman of CloudCoCo Limited at the time of the acquisition by the Group.

Andy joined the Board on 21 October 2019.

Mark Halpin

Chief Executive Officer

Mark Halpin has 16 years of experience working in the technology sector with a focus on driving new business and sales growth. His career started at RedCentric Plc in 2004 where he spent 14 years in the sales team, becoming new business sales director in 2008 responsible for all new business acquisition and, from 2015, focusing on the development of its government and healthcare activities. In 2018 Mark left RedCentric and co-founded CloudCoCo Limited which was subsequently acquired by the Group in October 2019. Since founding CloudCoCo Limited, Mark has been its Managing Director.

Mark joined the Board as Chief Executive Officer on 31 March 2020.

Darron Giddens

Chief Financial Officer

Darron qualified as a Chartered Management Accountant with Gan Life & Pensions plc and subsequently worked in the IT and Telecommunications industry for 25 years and holds an MBA from Aston University. During his career, Darron has gained experience in corporate finance, IT systems and corporate strategy work. Prior to his appointment as CFO in June 2021, Darron was Finance Director for the various trading businesses within the Group for a number of years, and has overseen the acquisition and integration of ten companies into the Group, including the successful disposal of its Scottish based telephony division in 2016.

Darron joined the Board as Chief Financial Officer on 9 June 2021.

Corporate governance report

CloudCoCo Group plc (the "Company"), is committed to operating proper standards of good corporate governance and has established a corporate governance model based on the key principles of the Quoted Companies Alliance Corporate Governance Code ("QCA Code"). The following outlines how the Company addresses the ten broad governing principles defined in the QCA Code. The Non-Executive Chairman is responsible for corporate governance and the overall leadership of the Board and ensuring its effectiveness.

The Company operates a business model and growth strategy that promotes the generation of shareholder value through the growth and retention of recurring revenue streams. The Company promotes professionalism, openness, honesty and integrity between its customers, staff, shareholders and suppliers.

Principle 1 – Establish a strategy and business model which promote long-term value for shareholders.

Goals:
As a public company we are focused on delivering value for both our shareholders and customers and have three goals that drive our business:

- Deliver shareholder value
- Provide high levels of customer satisfaction
- Differentiate our service through expertise, innovation and successful execution of solutions

Purpose:
The purpose of the business is to generate shareholder value and help our customers achieve their business goals and objectives through the profitable delivery of IT and communication solutions to provide customers with exactly the right amount of technology and support that they need, ensuring that they only pay for what they receive.

Strategy:
The Company currently delivers IT and communication solutions to business customers by leveraging strong partnerships and a single operating platform established from the integration of several businesses. Our strategy is to:

- Transform the way our customers use and pay for IT
- Leverage our expertise to provide all customers with a corporate IT department experience
- Lead our customers on their journey from on-premise to the cloud
- Partner with the best public cloud and application providers
- Cross-sell IT and telephony services to customers
- Focus on growing our recurring revenues through organic growth
- Develop and expand an innovative portfolio of solutions
- Stay close to the customer, small enough to care and large enough to cope

Principle 2 – Seek to understand and meet shareholder needs and expectations.

The Company is committed to open communication with all its shareholders. The Chief Executive Officer and Chief Financial Officer are primarily responsible for investor relations.

The Company values the views of its shareholders and recognises their interest in the Group's strategy and performance, Board membership and quality of management. The Company believes it is important to explain business developments and financial results to its shareholders, to understand shareholder concerns, and to ensure that suitable arrangements are in place to ensure a balanced understanding of the issues and concerns of major shareholders.

The principal method of communication with private investors is via the Company's Annual Report and Accounts, Interim Reports, the Annual General Meeting and other relevant announcements that are maintained on the Group's investor website, www.cloudcoco.co.uk. As appropriate, business-related announcements may also be published there if the Group considers them to be of significant interest to shareholders.

Shareholders are given the opportunity to raise questions at the Annual General Meeting and the Directors are available both before and after the meeting for further discussion with shareholders. The Annual General Meeting is used to communicate with all shareholder and investor groups, and they are encouraged to participate. The Chairs of the Audit and Remuneration Committees are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there are resolutions to receive the Annual Report and Accounts and the report on Directors' remuneration.

Meetings are offered to major institutional shareholders to discuss strategy, financial performance and investment activity immediately after the full year and interim results announcements. The non-executive Directors are available to meet with major shareholders if such meetings are required. Feedback from such meetings with shareholders is provided to the Board to ensure that the Directors have a balanced understanding of the issues and concerns of major shareholders.

The Board receives share register analysis reports to monitor the Company's shareholder base and help identify the types of investors on the register.

Principle 3 – Take into account wider stakeholder and social responsibilities and their implications for long-term success.

The Company regards its shareholders, employees, customers, suppliers, advisors and others as the wider stakeholder group.

Management prioritises its relationships with customers and staff and effort is directed to ensuring they are managed appropriately. Regular reviews are undertaken to ensure any issues are addressed promptly.

The Company records and regularly reviews customer service levels. There is a feedback system in place representing customer success, the results of which are measured and acted upon to ensure the drive for constant improvement is met.

The Company's internal stakeholders are its employees. The Group is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of sex, gender reassignment, race, disability, sexual orientation, pregnancy and/or maternity, marital or civil partner status, religion or belief or age.

Employee involvement in the Group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Group plays a major role in maintaining good relations with them. Employees receive regular updates from the Chief Executive Officer on the Company's progress and new initiatives via monthly staff updates and regular town hall meetings, which offers an opportunity for them to raise queries or issues. Employees are also surveyed on a quarterly basis to measure satisfaction and solicit feedback to improve the business.

Principle 4 – Embed effective risk management, considering both opportunities and threats, throughout the organisation.

The Board has established a risk register relating to the Company's business. At least annually, it meets to consider the appropriateness of the risks identified and the mitigating action taken by management on a risk by risk basis focusing on those deemed most critical.

For further details of the Company's approach to risk and its management, please refer to the Risks and Risk Management section of the Strategic Report as set out above.

The Board has also set out a policy defining the Group's compliance, procedures and position regarding the prevention of the facilitation of tax evasion as defined by the Criminal Finances Act 2017.

Principle 5 – Maintain the Board as a well-functioning, balanced team led by the Chair.

The size of the board is considered to be appropriate to the current size and character of the Group. Each non-executive director is expected to devote a minimum of one day per month to the Company's business, plus any additional time which may be required to fulfil their duties.

The Chairman leads the meetings of the board and acts in a conciliatory role when members of the Board differ. The Board directs the Group's activities in an effective manner through regular monthly board meetings and monitors performance through timely and relevant reporting procedures which enable risks to be assessed and managed. During this financial year, 12 monthly board meetings were held with all Directors then in office present in person or via conference call.

Operational management of the Group is delegated to the Senior Management Team, who meet regularly with the Chief Executive Officer and Chief Financial Officer to review current business performance, sales activity, operational projects, customer service, human resourcing matters and other day to day activities.

Detailed Board packs include information on all revenue streams and financial performance and are circulated ahead of Board meetings. Key issues are highlighted and explained, providing Board members with sufficient information to enable a relevant discussion in the Board meeting. The Chief Executive Officer and Chief Financial Officer attends the Company's senior management meetings and updates the Board accordingly on any issues and developments.

Principle 6 – Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities.

The Board members and their relevant experience and skills are detailed on page 14. The Non-Executive Chairman believes that, as a whole, the Board has a suitable mix of skills and competencies covering all essential disciplines bringing a balanced perspective that is beneficial both strategically and operationally and will enable the Company to deliver its strategy.

The Board consists of two executive directors and three non-executive directors, of whom Simon Duckworth is independent. The nature of the Company's business requires the Directors to keep their skillset up to date. Updates to the Board on regulatory matters are given by the Company's professional advisers when appropriate.

In addition to the support provided by the Company's retained professional advisers (Nominated Adviser, lawyers, auditor and M&A adviser), external consultants are engaged when needed to advise on any relevant matters. External advisers attend Board meetings or committee meetings as invited by the Non-Executive Chairman to report and/or discuss specific matters relevant to the Company.

Departure from the code

The Group recognises that since Tom Black stood down at the Annual General Meeting in March 2020, that there have not been two independent directors. However, with an experienced independent Chairman supported, where needed, by retained professional advisors, it is considered the current composition of the Board is appropriate.

Corporate governance report (continued)

Principle 7 – Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.

Board performance effectiveness process

The Chairman is responsible for the regular evaluation of the Board's performance and that of its committees and individual Directors.

In 2017, the Directors took part in an independent Board Effectiveness exercise that gathered feedback and measured the performance and effectiveness of the Board across a number of parameters including:

- setting, guiding and monitoring group strategy;
- standard of internal reporting;
- channels of communication;
- support of management with appropriate challenge;
- structure and effectiveness of meetings;
- appropriate use of external advisors;
- quality debate and appropriate preparation;
- compliance with governance, legislation and regulation;
- focus on future vs past; and
- skills of board members.

The Board was unable to carry out the evaluation in 2020 or 2021 as the focus was on steering the business through the issues caused by the COVID-19 pandemic. The Board intend to carry out an internal evaluation during 2022.

Succession planning and Board appointments

The Remuneration Committee meets as and when necessary to consider the appointment of new executive and non-executive directors, although the Board as a whole takes responsibility for succession planning. Board members all have appropriate notice periods so that if a Board member indicates his/her intention to step down, there is sufficient time to appoint a replacement, whether internal or external.

Each director is required to offer themselves for re-election at least once every three years as per the Company's Articles of Association.

Board appointments are made after consultation with advisers including the Nominated Adviser who undertakes due diligence on all new potential Board candidates.

Principle 8 – Promote a corporate culture that is based on ethical values and behaviours.

The Board recognises that core values provide a framework which influences every level of the Group. Under guidance from the Board, the Chief Executive Officer takes the lead in developing and promoting the corporate culture and ensures that employees understand the business values and behaviours required to ensure that we perform as one team to deliver our business goals and maintain good employee relations. Our values and behaviours are communicated to all employees throughout the year through a series of company-wide meetings and via an employee experience platform that integrates with our everyday business applications. The platform incorporates regular employee engagement and consultation through surveys, polls and by providing feedback from colleagues and customers instantaneously. Qualifying employees are also awarded incentive based share options.

The Company's environmental and health and safety policies are as follows:

Environmental policy

The Group acknowledges the importance of environmental matters and where possible uses environmentally friendly policies in its offices, such as recycling and energy-efficient practices.

Health and safety

The Group aims to provide and maintain a safe working environment for all colleagues and visitors to its premises, and to comply with all relevant UK health and safety legislation. Health and safety matters are delegated to representatives within the business, who can raise any issues arising via a number of means, including the corporate risk register whose highest rated risks are reviewed periodically by the Board.

Principle 9 – Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.

On behalf of the Board, the Chief Executive Officer has overall responsibility for managing the day to day operations of the Company and the Board as a whole is responsible for monitoring performance against the Company's goals and objectives. The individual Board members' specific responsibilities, contributions and skills are set out on page 14.

The Board has established two standing Committees, the Audit Committee and the Remuneration Committee. A nominations committee would be established should it be required. Simon Duckworth is Chair of the Remuneration Committee and Jill Colligan is Chair of the Audit Committee. Terms of reference for the Committees are available on the Company's website.

Corporate governance report (continued)

Departure from the code

The Group recognises that since Tom Black stood down at the Annual General Meeting in March 2020, that there have not been two independent directors in terms of the composition of its Board and Committees. However, the Chair of each Committee is considered experienced and capable of ensuring proper governance is maintained.

Principle 10 – Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The Company maintains a regular dialogue with key stakeholders including shareholders to enable interested parties to make informed decisions about the Group and its performance.

Historical annual reports and notices of general meetings can be found in the Financial Reports section of the Group's website.

The Board discloses the results of Annual General Meetings and these can be found in the Regulatory News section of the website.

The Audit Committee meets at least twice a year, although the Company's Auditors or any member of the Audit Committee may request a meeting at any time, should they consider that one is necessary. The role of the Audit Committee is to make recommendations to the directors and shareholders, in relation to the appointment, re-appointment and removal of the Company's Auditors and to approve their remuneration and terms of engagement. Prior to the commencement of each annual or interim audit, the Audit Committee will discuss and agree the nature and scope of the audit with the Auditors and in discussion with them, will monitor the integrity of the financial statements of the Group and approve any formal announcements relating to the Company's financial performance.

The Audit Committee develops and implements policies on the engagement of the Auditors to supply non-audit services and will report to the Directors, identifying any matters where the Audit Committee considers that action or improvement is needed, making recommendations as to the steps to be taken.

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference and may seek information it requires from any employee of the Company. The Audit Committee may seek outside professional advice at the cost of the Company, in order to secure any relevant experience or expertise it considers necessary to fulfil its duties.

The terms of reference of the Remuneration Committee and its report can be found below.

Remuneration report

As the Group is AIM registered it is not required by company law to prepare a Remuneration Report. The information in this report has been provided on a voluntary basis and has not been audited except where indicated.

Remuneration Committee
The Remuneration Committee determines, on behalf of the Board, the Group's policy for executive remuneration and the individual remuneration packages for the Executive Directors. In setting the Group's remuneration policy, the Remuneration Committee considers a number of factors, including the following:

- salaries and benefits available to Executive Directors of comparable companies;
- the need to attract and retain Executives of an appropriate calibre; and
- the need to ensure continued commitment of Executives to the Group's success through appropriate incentive schemes.

The Committee meets at least once a year.

Remuneration of Executive Directors
The fees paid to the Executive Directors are determined by the Board. Mark Halpin and Darron Giddens have service contracts with the Company terminable on six-months' notice.

Remuneration of Non-Executive Directors
The fees paid to the Non-Executive Directors are determined by the Board. They are not entitled to receive any bonus or other benefits. Non-Executive Directors' letters of appointment are on a three-month rolling basis.

Directors' remuneration (Audited information)
Details of individual Directors' emoluments for the year (excluding employer's National Insurance contributions) are as follows:

	Fees and salaries		Other benefits		Totals	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
Non-Executive						
S Duckworth	**34**	32	—	—	**34**	32
T Black (resigned 31 March 2020)	—	16	—	—	**—**	16
J Collighan[1]	**32**	38	—	—	**32**	38
A Mills	**28**	13	**—**	**—**	**28**	13
Executive						
M Halpin (in office 31 March 2020 30 September 2021)[2]	**111**	107	**16**	4	**127**	111
M Lacey (resigned 8 June 2021)	**62**	60	**2**	3	**64**	63
D Giddens (in office 9 June 2021 to 30 September 2021)[2]	**36**	**—**	**14**	**—**	**50**	**—**
Total	**303**	266	**32**	7	**335**	273

Other benefits include £4,000 (FY20: £3,000) in respect of pension contributions for M Halpin and £1,000 (FY20: Nil) in respect of pension contributions for D Giddens. Additional benefits for M Halpin and D Giddens relate to share-based payments.

1. fees in relation to J Collighan are paid to MXC Capital Advisory Limited (see Note 23).
2. fees in relation to M Halpin and D Giddens show the period since joining the Board only.

Directors' interests in shares (Audited Information)
The interests of Directors (including connected parties) during the year in the Ordinary Shares of the Company at 30 September 2021 together with their interests as of 30 September 2020 were as follows:

Name of Director	30 September 2021 Number	**30 September 2020 Number**
S Duckworth and Lady C Duckworth	25,850,000	8,500,000
A Mills	32,724,088	32,724,088
M Halpin and C Halpin	140,713,578	140,713,578
D Giddens	2,946,150	2,946,150
M Lacey (resigned 8 June 2021)	—	810,000

MXC Advisory Limited, who provides the services of Jill Collighan, is a wholly owned subsidiary of MXC Guernsey Limited, which had a 10.6% holding in the shares of the Company at 30 September 2021.

Remuneration report (continued)

Directors' interests in share options (audited information)
Two directors held options over the Ordinary Shares of the Company as follows:

	2021	2020
Mark Halpin – Chief Executive Officer	**7,500,000**	—
Darron Giddens – Chief Financial Officer	**7,000,000**	**1,342,692**

7,500,000 share options were issued to Michael Lacey, a Director of the Company on 20 November 2020, but were subsequently lapsed and cancelled upon his resignation on 8 June 2021.

All of the 48,225,000 share options in place at 30 September 2021 have been granted under the terms of the Company's approved EMI share option scheme. Further details of share options can be found in Note 7.

By order of the Board

Simon Duckworth

Chairman, Remuneration Committee
6 March 2022

Directors' report

The Directors present their Annual Report, together with the financial statements and Auditor's report, for the year ended 30 September 2021 for CloudCoCo Group plc, company number 05259846.

Principal activities
The principal activity of the Group is the provision of IT and communications solutions predominantly to UK based businesses. Further information can be found in the Strategic Report on pages 2 to 13.

Corporate governance
The statement on corporate governance on pages 15 to 18 is included in the Directors' Report by way of reference.

Results and dividends
The Group's loss on ordinary activities after taxation was £2.1 million (FY20: loss of £2.7 million). The audited financial statements of the Group are set out on pages 25 to 56. The Directors do not propose a dividend for the year ended 30 September 2021 (FY20: £nil).

Strategic review
The information required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, including likely future developments and trading outlook, has been included in the separate Strategic Report on pages 2 to 13 in accordance with section 414C (11) of the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Going concern
The Group had positive net assets at 30 September 2021 totalling £5.2 million compared to £5.0 million at the end of FY20. The net proceeds from the Placing referred to in the Financial Review and the subsequent acquisition of Systems Assurance Limited and More Computers increased the net asset position, due to the issue of share capital of £2.1 million.

The Group's progress towards its key objectives of increasing sales, reducing customer churn, reducing costs, and returning to net cash generation is described in the Strategic Report. Despite continued uncertainty and disruption as a result of the pandemic, the Group reported a three-fold improvement in underlying profitability as measured by Trading Group EBITDA (2021: £0.75 million; 2020: £0.27 million). Cash outflow from operating activities before acquisition costs was £0.3 million (FY20: £0.5 million inflow).

The Strategic Report on pages 10 to12 describes the risks associated with the Group's activities which are reviewed by the Directors on a regular basis. The key operational risk the Group faces is the general economic outlook including the continued uncertainty caused by the pandemic. Although COVID-19 has not had a material impact on the Group's ability to operate, it has resulted in delays in sales cycles for certain services and delays in project delivery as customers assess the impact of COVID-19 on their own businesses. The Group responded during the year by taking action to conserve cash including temporary pay cuts, use of the Government's furlough and VAT deferral schemes and a COVID-19 Bounce Back Loan. In addition, there is financial, operational and executional risk associated with the business combinations completed both pre and post year end, as described in Notes 13 and 25.

The Directors have reviewed the forecast sales growth, budgets and cash projections for the period to March 2023, including sensitivity analysis on the key assumptions such as the potential impact of reduced sales or slower cash receipts, for the next twelve months and beyond and the Directors have reasonable expectations that the Group and the Company have adequate resources to continue operations for the period of at least one year from the date of approval of these financial statements. The Directors have not identified any material uncertainties that may cast doubt over the ability of the Group and Company to continue as a going concern and the Directors continue to adopt the going concern basis in preparing these financial statements.

Directors
The present membership of the Board is as follows:

Simon Duckworth, Non-Executive Chairman
Jill Collighan, Non-Executive Director
Andy Mills, Non-Executive Director
Mark Halpin, Chief Executive Officer
Darron Giddens, Chief Financial Officer (appointed 9 June 2021)

Michael Lacey was also a Director during the year and resigned on 8 June 2021.
Darron Giddens and Andy Mills will be offering themselves for re-election at the forthcoming Annual General Meeting.

The biographical details of the current Directors of the Company are given on page 14.

Details of Directors' interests in the Company's shares, service contracts and remuneration are set out in the Directors' Remuneration Report on pages 19 and 20.

Fees in relation to Jill Collighan are paid to MXC Advisory Limited a subsidiary of MXC Guernsey Limited which has a 10.6% holding in the shares of the Company (shareholding at 30 September 2020: 15.2%) and which holds loan notes in the Company to the value of £3.5 million. No other Director had a material interest in any significant contract with the Company or any of its subsidiaries during the year.

Directors (continued)

The Company maintains liability insurance for its Directors and Officers. The Directors and Officers have also been granted a qualifying third-party indemnity provision under the Companies Act 2006. That indemnity provision has been in force throughout the year and remains in force at the date of this report.

Substantial shareholdings

As at 6 March 2022, the following substantial shareholding interests had been notified to the Company. These balances also reflect the holding at 30 September 2021.

	Number of ordinary shares	Percentage held
Mark Halpin (CEO) and Caroline Halpin	140,713,578	19.93%
Mark Ward	110,000,000	15.58%
MXC Capital Limited	75,066,275	10.63%
Hargreaves Lansdown Asset Management Limited	38,500,000	5.45%
Andy Mills (Non-Executive Director)	32,724,088	4.63%
Simon Duckworth (Non-Executive Chairman) and Lady Caroline Duckworth	25,850,000	3.66%

Share options

During the year the Company issued 58,190,500 share options (FY20: nil) as part of the Company's new 'CoCo-One' initiative in which all qualifying colleagues were awarded options to encourage shared ownership and enhance retention, recruitment and incentivisation across the business. The share options, which have an exercise price of 1 pence per Ordinary Share, can be exercised at any time between 20 November 2022 (or earlier if there is a qualifying transaction) and 20 November 2030. The share options will only accrue value in the event the Company's share price being greater than 2 pence per Ordinary Share at the date of exercise, thereby aligning the interests of recipients with those of shareholders. In addition to the share options granted in the year, 14,713,192 share options were lapsed or waived (FY20: 3,800,000) in accordance with the share issue documents. Details of the existing share options remaining in force can be found in Note 7 to the consolidated financial statements.

Share warrants

During the year, the Company issued 4,000,000 share warrants to the vendors of Systems Assurance Limited, giving them the right to subscribe in cash for Ordinary Shares in the Group, at a Subscription Price of 1.5p per Ordinary Share, subject to certain pre-conditions during the ten-year period Exercise Period, commencing 3 March 2022. Further details are provided in Note 7 to the consolidated financial statements.

Post-balance sheet events

On 19 October 2021, the Company acquired IDE Group Connect Limited ("Connect") and Nimoveri Limited ("Nimoveri") (together, the "Acquisitions") from IDE Group Holdings PLC ("IDE") for a deferred consideration of £250,000.

The Acquisitions provided the Group with circa 660 additional clients and a significant opportunity to upsell and cross sell services across the Group. The Acquisitions were acquired from IDE on a normalised net cash basis for a consideration of £250,000, funded via a loan note from IDE for £250,000 to be repaid over five years with an annual interest rate of Bank of England base rate +3% with no payments due in the first six months. The net assets acquired under the transaction equate to £250,000, including a cash balance of £400,000.

IDE agreed to provide the Group with a working capital facility of up to £500,000 on request, should it be required to help fund the initial restructure of the Connect business. Amounts drawn would be convertible into new ordinary shares in the Group at 1 pence per share, if not repaid in full by 19 October 2022.

Details of the Acquisitions can be found in Note 22 to the consolidated financial statements.

Financial risk management and objectives

Details of the financial risk management policies and objectives are contained in Note 25 to the consolidated financial statements.

Equal Opportunities

The company is an equal opportunities employer and promotes an environment free from discrimination, harassment and victimisation, where everyone receives equal opportunities and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices are objective, free from bias and based solely upon work criteria and individual merit.

The company gives full and fair consideration to applications for employment from disabled people and encourages and assists the recruitment, training, career development and promotion of disabled people. The company endeavours to retain and adjust the environment of employees who become disabled during the course of their employment.

Awareness of relevant audit information

Each of the Directors who held office at the date of approval of this Directors' Report confirms that, so far as they are aware:

- there is no relevant audit information of which the Auditor is unaware; and
- the Directors have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Auditor is aware of that information.

Directors' report (continued)

Annual General Meeting
The Annual General Meeting will be held on 31 March 2022 at 2:00 p.m.

Notice of the Annual General Meeting will be sent to shareholders on 31 March 2022.

Independent Auditor
RSM UK Audit LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

By order of the Board

Darron Giddens
Company Secretary

6 March 2022

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, 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. The Directors have elected under company law to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the Directors have elected under company law to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The Group financial statements are required by law and international accounting standards in conformity with the requirements of the Companies Act 2006 to present fairly the financial position and performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing each of the Group and Company 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;
- for the Group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions, disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the CloudCoCo Group plc website. Legislation in the United Kingdom governing the preparation and dissemination of the accounts and other information included in annual reports may differ from legislation in other jurisdictions.

Independent Auditor's report to the members of CloudCoCo Group plc

Opinion

We have audited the financial statements of CloudCoCo Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 September 2021 which comprise the consolidated income statement, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity, the consolidated and company statements of cash flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006. 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 Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2021 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- 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 the 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.

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's and parent company's ability to continue to adopt the going concern basis of accounting included:

- reviewing and evaluating financial forecasts prepared by the directors to support their assessment of the group's ability to continue as a going concern;
- identifying the key assumptions supporting the forecasts;
- assessing the quality of management's forecasting by comparing forecast from prior years to actual outcomes;
- comparing actual cash flows that had occurred since the forecasts were prepared to those that were forecasted to determine whether they were consistent;
- testing the sensitivity of the headroom reported by the forecasts to plausible changes in assumptions;
- testing the arithmetic integrity of the cash flow forecasts; and
- reviewing the disclosures in the financial statements in respect of the directors' assessment of going concern to assess whether they appropriately described the basis of the assessment.

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's or the 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.

Independent Auditor's report to the members of CloudCoCo Group plc (continued)

Summary of our audit approach

Key audit matters	**Group** • Measurement of identifiable intangible assets acquired in business combinations • Carrying value of goodwill and other intangible assets **Parent Company** • Impairment of intercompany receivables
Materiality	**Group** • Overall materiality: £148,000 (2020: £148,000) • Performance materiality: £111,000 (2020: £111,000) **Parent Company** • Overall materiality: £107,000 (2020: £147,999) • Performance materiality: £80,000 (2020: £111,000)
Scope	Our audit procedures covered 100% of revenue, 100% of total assets and 100% of loss before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company 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 group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of identifiable intangible assets acquired in business combinations

Key audit matter description	*(Refer to page 36 regarding the accounting policy in respect of business combinations, page 40 regarding critical accounting judgements and estimates and note 22 relating to the acquisition of Systems Assurance Limited).* During the year the group completed the acquisition of the entire share capital of Systems Assurance Limited. The group's accounting policies require the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. Goodwill represents the excess of acquisition costs over the fair value of the group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. The directors identified intangible assets relating to brands, IT assets and customer lists of £0.5m, £0.2m and £0.1m respectively, and goodwill of £0.2m. The measurement of intangible assets is complex and requires use of judgement in the selection of an appropriate technique and related inputs.
How the matter was addressed in the audit	We reviewed the design of the models that were used to measure the intangible assets arising as part of the business combination to assess whether they were appropriate. We tested the clerical accuracy of the models. We compared the models to the group's accounting policies to check that the policies had been consistently applied. We challenged the assumptions used in the models including discount rates and growth rates and compared them with those used in the assessment of impairment of goodwill and intangible assets for consistency. We reviewed the financial projections that had been assessed by the directors at the time of the acquisition and compared them to those used in the measurement of intangible assets to check that they were consistent. We tested the sensitivity of the values of the brands and customer assets to changes in assumptions. We tested the measurement of the cost of the acquisition by inspecting the sales and purchase agreement and testing the payments to bank statements.

Independent Auditor's report to the members of CloudCoCo Group plc (continued)

Carrying value of goodwill and other intangible assets

Key audit matter description	*(Refer to page 38 regarding the accounting policy in respect of impairment testing, page 40 regarding critical accounting judgements and estimates and note 10 relating to the carrying value of goodwill and intangible assets and the assessment of impairment as at 30 September 2021).* The carrying values of goodwill and other intangible assets as at 30 September 2021 are £5.6m and £4.8m respectively. The carrying value of goodwill is required to be tested for impairment on annual basis and other intangible assets when there are indicators of impairment. The measurement of recoverable amount requires use of judgement and estimates regarding future cash flows and selection of an appropriate discount rate.
How the matter was addressed in the audit	We tested the design and clerical accuracy of the models used to measure the recoverable amount of goodwill and intangible assets as described in note 10 to ensure that they were consistent with the requirements of the financial reporting framework, IAS 36 *Impairment of Assets.* We challenged the assumptions used in the models by: • Comparing the cash flow forecasts to the actual performance for the year ended 30 September 2021; • Comparing the assumptions to those used in the assessment of impairment in the previous year to identify changes and obtained explanation from management; • Comparing the forecasts to actual performance observed since the year end; • Performing sensitivity analysis to test the impact on the reported headroom of changes in cash flows and discount rates; • Comparing the recoverable amount calculated by management to the market capitalisation of the company; and • Using valuations specialists to review the pre-tax and post-tax discount rates for reasonableness. We used the knowledge gained in performing other audit procedures to assess whether there were any indicators of impairment that had not been identified by management. We assessed whether the testing of impairment was performed at the lowest level of assets that are capable of generating cash flows independently.

Impairment of intercompany receivables (parent company only)

Key audit matter description	*(Refer to page 60 regarding the critical accounting judgements and estimates and note 7 regarding the carrying value of amounts receivable from subsidiary undertakings).* At 30 September 2021 the parent company has receivable balances due from subsidiary undertakings with a carrying value of £10.2m. The Group reported operating losses of £1.3m and therefore there is a risk that the balances may not be recoverable. The assessment of the recoverability of these balances requires estimation of the cash flows that will be generated by the subsidiaries.
How the matter was addressed in the audit	We reviewed the assessment of the recoverability of the balances due from subsidiary undertakings. We challenged the assumptions used in the assessment by comparing them to those used in the discounted cash flow model used by management to assess the carrying value of goodwill and intangible assets to ensure that they were consistent. We performed sensitivity analysis to assess the impact of changes in assumptions regarding cash flows and discount rates on the excess of cash flows over the balances due from subsidiary undertakings.

Independent Auditor's report to the members of CloudCoCo Group plc (continued)

Our application of materiality

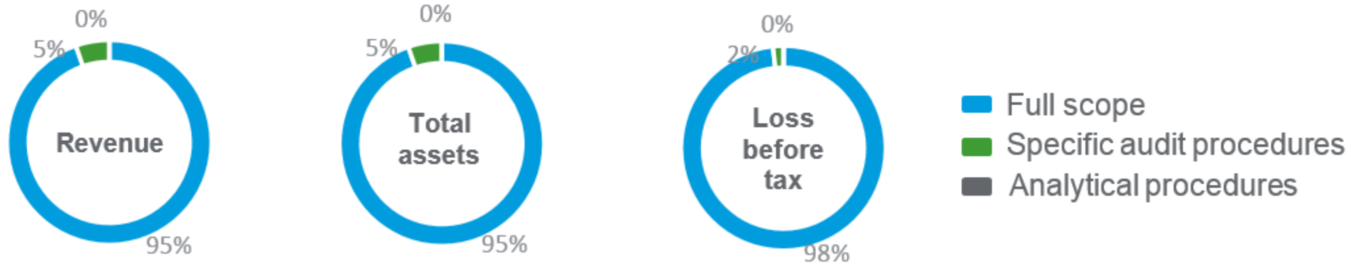
When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£148,000 (2020: £148,000)	£107,000 (2020: £147,999)
Basis for determining overall materiality	5% of the average loss before tax for the current year and previous two years, capped at overall materiality applied in the previous year.	1.7% of net assets
Rationale for benchmark applied	We believe that loss before tax is an important measure of performance and is consistent with the expectations of the users of the financial statements of an AIM listed entity. We used a three-year average loss before tax as we believe that this reflects the performance of the group during the period since the acquisition of CloudCoCo Limited in October 2019. We believe that the users of the financial statements would not expect overall materiality to be higher than the previous year.	We believe that net assets is an important measure in assessing the performance of the parent company.
Performance materiality	£111,000 (2020: £111,000)	£80,200 (2020: £111,000)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £7,400 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £5,350 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group consists of 6 components, all of which are based in the UK.

The coverage achieved by our audit procedures was:



Full scope audits were performed for 2 components, specific audit procedures for 2 components and analytical procedures at group level for the remaining 2 components.

Independent Auditor's report to the members of CloudCoCo Group plc (continued)

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 set out on page 24, 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.

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 the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

Independent Auditor's report to the members of CloudCoCo Group plc (continued)

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the group and parent company operate in and how the group and parent company are complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

The most significant laws and regulations were determined as follows:

Legislation / Regulation	Additional audit procedures performed by the Group audit engagement team included:
IFRS, FRS102, Companies Act 2006 and AIM Rule 19 relating to the preparation of annual accounts	Review of the financial statement disclosures and testing to supporting documentation; Completion of disclosure checklists to identify areas of non-compliance.
Telecoms regulation enforced by Ofcom	Inquiry of management and review of board minutes and inspection of legal and regulatory correspondence, if any.

The areas that we identified as being susceptible to material misstatement due to fraud were:

Risk	Audit procedures performed by the audit engagement team:
Revenue recognition	Testing of a sample of transactions recorded during the year and close to the year end to contract and evidence of satisfaction of performance obligations; Transactions posted to nominal ledger codes outside of the normal revenue cycle were identified using a data analytic tool and investigated.
Management override of controls	Testing the appropriateness of journal entries and other adjustments; Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Graham Bond FCA (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
14th Floor
20 Chapel Street, Liverpool
L3 9AG

6 March 2022

Consolidated income statement
for the year ended 30 September 2021

	Note	**2021 £'000**	2020 £'000
Continuing operations			
Revenue	3	**8,107**	7,970
Cost of sales		**(4,891)**	(4,554)
Gross profit		**3,216**	3,416
Other income		**67**	97
Administrative expenses		**(4,794)**	(5,963)
Trading Group EBITDA [1] – non statutory measure		**745**	261
Amortisation of intangible assets	10	**(1,009)**	(1,623)
Plc costs[2]		**(492)**	(461)
Depreciation	11	**(97)**	(113)
Exceptional items – other	4	**(441)**	(540)
Share-based payments	7	**(217)**	26
Operating loss	5	**(1,511)**	(2,450)
Interest receivable	6	**1**	1
Interest payable	6	**(535)**	(518)
Loss before taxation		**(2,045)**	(2,967)
Taxation	8	**(83)**	288
Loss and total comprehensive loss for the year attributable to owners of the parent		**(2,128)**	(2,679)
Loss per share			
Basic and fully diluted	9	**(0.42)p**	(0.56)p

[1] profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.

[2] Plc costs are non-trading costs relating to the Board of Directors of the Parent Company, its listing on the AIM Market of the London Stock Exchange and its associated professional advisors.

The accompanying accounting policies and notes on pages 35 to 56 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

as at 30 September 2021

	Note	**30 September 2021 £'000**	30 September 2020 £'000
Non-current assets			
Intangible assets	10	**10,393**	10,359
Property, plant and equipment	11	**149**	221
Total non-current assets		**10,542**	10,580
Current assets			
Inventories	12	**86**	31
Trade and other receivables	13	**2,953**	1,856
Cash and cash equivalents	14	**1,183**	588
Total current assets		**4,222**	2,475
Total assets		**14,764**	13,055
Current liabilities			
Trade and other payables	15	**(2,872)**	(2,465)
Contract liabilities	16	**(177)**	(565)
Borrowings	17	**(172)**	(104)
Lease liability	18	**(86)**	(122)
Total current liabilities		**(3,307)**	(3,256)
Non-current liabilities			
Contract liabilities	16	**(1,092)**	(364)
Borrowings	17	**(3,991)**	(3,458)
Lease liability	18	**(11)**	(61)
Deferred tax liability	20	**(1,188)**	(940)
Total non-current liabilities		**(6,282)**	(4,823)
Total liabilities		**(9,589)**	(8,079)
Net assets		**5,175**	4,976
Equity			
Share capital		**7,062**	4,952
Share premium account		**17,630**	17,630
Capital redemption reserve		**6,489**	6,489
Merger reserve		**1,997**	1,997
Other reserve		**339**	122
Retained earnings		**(28,342)**	(26,214)
Total equity	21	**5,175**	4,976

These financial statements were approved and authorised for issue by the Board of Directors on 6 March 2022.
Signed on behalf of the Board of Directors by

Darron Giddens

Director

The accompanying accounting policies and notes on pages 35 to 56 form an integral part of these financial statements.

Consolidated statement of changes in equity
for the year ended 30 September 2021

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2019	**2,271**	**11,337**	**6,489**	**1,997**	**1,720**	**(24,925)**	**(1,111)**
Loss and total comprehensive loss for the period	—	—	—	—	—	(2,679)	(2,679)
Transactions with owners in their capacity of owners							
Extinguishment of BGF Loan Notes in consideration for issue of 50,000,000 shares at 0.35p per share (note 19)	500	1,275	—	—	(1,330)	1,148	1,593
Issue of 218,160,586 shares to CloudCoCo vendors at 3.3p per share (note 22)	2,181	5,018	—	—	—	—	7,199
Cancellation of 11,353,255 share warrants held by MXC Guernsey on acquisition of CloudCoCo Ltd	—	—	—	—	(242)	242	—
Share-based payments	—	—	—	—	(26)	—	(26)
Total transactions with owners	2,681	6,293	—	—	(1,598)	1,390	8,766
Total movements	2,681	6,293	—	—	(1,598)	(1,289)	6,087
Equity at 30 September 2020	**4,952**	**17,630**	**6,489**	**1,997**	**122**	**(26,214)**	**4,976**

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2020	**4,952**	**17,630**	**6,489**	**1,997**	**122**	**(26,214)**	**4,976**
Loss and total comprehensive loss for the period	—	—	—	—	—	(2,128)	(2,128)
Transactions with owners in their capacity of owners							
Issue of 210,990,000 shares at 1p per share via a Placing (note 21)	2,110	—	—	—	—	—	2,110
Share-based payments	—	—	—	—	217	—	217
Total transactions with owners	2,110	—	—	—	217	—	2,327
Total movements	2,110	—	—	—	217	(2,128)	199
Equity at 30 September 2021	**7,062**	**17,630**	**6,489**	**1,997**	**339**	**(28,342)**	**5,175**

The accompanying accounting policies and notes on pages 35 to 56 form an integral part of these financial statements

Consolidated statement of cash flows

for the year ended 30 September 2021

	2021 £'000	2020 £'000
Cash flows from operating activities		
Loss before taxation	**(2,045)**	(2,967)
Adjustments for:		
Depreciation – owned assets	**22**	36
Depreciation – right of use assets	**75**	77
Amortisation	**1,009**	1,623
Share-based payments	**217**	(26)
Net finance expense	**534**	517
Costs relating to acquisitions[1]	**202**	435
Costs relating to Placing of 210,990,000 shares (note 21)	**171**	—
Increase in trade and other receivables	**(408)**	(65)
(Increase) / decrease in inventories	**(24)**	1
(Decrease) / increase in trade payables, accruals and contract liabilities	**(57)**	866
Cash flows from taxation	**—**	—
Net cash (outflow) / inflow from operating activities before acquisition costs	**(304)**	497
Costs relating to acquisitions[1]	**(202)**	(435)
Net cash (outflow) / inflow from operating activities	**(506)**	62
Cash flows from investing activities		
Purchase of property, plant and equipment (note 11)	**(31)**	(37)
Acquisitions net of cash acquired[1]	**(563)**	157
Interest received	**1**	1
Net cash (outflow) / inflow from investing activities	**(593)**	121
Cash flows from financing activities		
Proceeds from Placing of 210,990,000 shares (note 21)	**2,110**	—
Less transaction fees relating to the Placing	**(171)**	—
Proceeds from exercise of BGF share options	**—**	175
(Repayment) / receipt of loan funds from MXCG	**(100)**	100
Receipt of loan funds from COVID-19 Bounce Back Loan	**—**	50
Payment of lease liabilities	**(120)**	(183)
Interest paid	**(25)**	(48)
Net cash inflow from financing activities	**1,694**	94
Net increase in cash	**595**	277
Cash at bank and in hand at beginning of period	**588**	311
Cash at bank and in hand at end of period	**1,183**	588
Comprising:		
Cash at bank and in hand	**1,183**	588

[1] FY21 relates to the acquisition of Systems Assurance Limited and More Computers Limited.
FY20 relates to the acquisition of CloudCoCo Limited

Notes to the consolidated financial statements

1. General information
CloudCoCo Group plc is a public limited company incorporated and domiciled in England and Wales under the Companies Act 2006. The address of the registered office is given on the back cover of this report. The principal activity of the Group is the provision of IT Services to small and medium-sized enterprises in the UK. The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which each of the Group's subsidiaries operates.

1.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The measurement bases and principal accounting policies of the Group are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

Going concern
The Group had positive net assets at 30 September 2021 totalling £5.2 million compared to £5.0 million at the end of FY20. The net proceeds from the Placing referred to in the Financial Review and the subsequent acquisition of Systems Assurance Limited and More Computers increased the net asset position, due to the issue of share capital of £2.1 million.

The Group's progress towards its key objectives of increasing sales, reducing customer churn, reducing costs, and returning to net cash generation is described in the Strategic Report. Despite continued uncertainty and disruption as a result of the pandemic, the Group reported a three-fold improvement in underlying profitability as measured by Group Trading EBITDA (2021: £0.75 million; 2020: £0.25 million). Cash outflow from operating activities before acquisition costs was £0.3 million (FY20: £0.5 million inflow).

The Strategic Report on pages 10 to 12 describes the risks associated with the Group's activities which are reviewed by the Directors on a regular basis. The key operational risk the Group faces is the general economic outlook including the continuing uncertainty caused by the pandemic. Although COVID-19 has not had a material impact on the Group's ability to operate, it has resulted in delays in sales cycles for certain services and delays in project delivery as customers assess the impact of COVID-19 on their own businesses. The Group responded during the year by taking action to conserve cash including temporary pay cuts, use of the Government's furlough and VAT deferral schemes and a COVID-19 Bounce Back Loan.

The Directors have reviewed the forecast sales growth, budgets and cash projections for the period to March 2023, including sensitivity analysis on the key assumptions such as the potential impact of reduced sales or slower cash receipts, for the next twelve months and beyond and the Directors have reasonable expectations that the Group and the Company have adequate resources to continue operations for the period of at least one year from the date of approval of these financial statements. The Directors have not identified any material uncertainties that may cast doubt over the ability of the Group and Company to continue as a going concern and the Directors continue to adopt the going concern basis in preparing these financial statements.

1.2 New standards and interpretations of existing standards that have been adopted by the Group for the first time

New standards or amendments to existing standards and interpretations that became effective for the annual period commencing on 1 October 2020 include Definition of Material - Amendment to IAS 1 and IAS 8 and Amendment to IFRS3 Conceptual framework of financial reporting Interest Rate Benchmark Reforms as well as Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

None of the new standards or interpretations of existing standards above had a material impact on the Group during the year ended 30 September 2021.

1.3 New standards and interpretations of existing standards that are not yet effective and have not been adopted early by the Group
The new standards or amendments that will be applicable to the 2022 financial statements are as follows:

- Interest Rate Benchmark Reforms - phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16;
- Amendments to IFRS 16: Covid-19 related rent concessions.
- Amendments to IFRS 3, with respect to application of the Conceptual Framework for Financial Reporting;
- Amendments to IAS 1, with respect to deciding which accounting policies to disclose;
- Amendments to IAS 8, with respect to distinguishing changes in accounting estimates from changes in accounting policies;
- Amendments to IAS 12, with respect to deferred tax recognition exemptions;
- Amendments to IAS 16, with the respect to the recognition of costs and sales proceeds of assets; and
- Amendments to the Conceptual Framework for Financial Reporting.

None of these are expected to have a material impact on the Group.

Notes to the consolidated financial statements (continued)

2. Principal accounting policies

a) Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared to 30 September each year. Control is achieved where the Company is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with using the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the Consolidated Statement of Financial Position at their fair values, which are also used as the cost bases for subsequent measurement in accordance with the Group accounting policies.

Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition costs over the fair value of the Group’s share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

b) Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Refer to principal accounting policy (k) for a description of impairment testing procedures.

c) Revenue and revenue recognition

Revenue arises from the sale of goods and the rendering of services as they are performed and the performance obligations fulfilled. It is measured by reference to the fair value of consideration received or receivable, excluding valued added tax, rebates, trade discounts and other sales-related taxes.

The Group enters into sales transactions involving a range of the Group’s products and services; for example, for the delivery of hardware, software, support services, managed services and professional services. At the inception of each contract the Group assesses the goods or services that have been promised to the customer. Goods or services can be classified as either i) distinct or ii) substantially the same, having the same pattern of transfer to the customer as part of a series. Using this analysis, the Company identifies the separately identifiable performance obligations over the term of the contract. A contract liability is recognised when billing occurs ahead of revenue recognition. A contract asset is recognised when the revenue recognition criteria were met but in accordance with the underlying contract the sales invoice had not been issued.

Goods and services are classified as distinct if the customer can benefit from the good or services on their own or in conjunction with other readily available resources. A series of goods or services, such as Recurring Services, would be an example of a performance obligation that is transferred to the customer evenly over time. The Group applies the revenue recognition criteria set out below to each separately identifiable performance obligation of the sale transaction. The consideration received from multiple-component transactions is allocated to each separately identifiable performance obligation in proportion to its relative fair value.

Sale of goods (hardware and software)

Sale of goods is recognised at the point in time when the customer obtains control of the goods. Revenue from the sale of software with no significant service obligation is recognised on delivery at a point in time.

Rendering of services

The Group generates revenues from managed services, support services, maintenance, resale of telecommunications and professional services (“Managed IT Services”). Consideration received for these services is initially deferred (when invoiced in advance), included in accruals and contract liabilities and recognised as revenue in the period when the service is performed and the performance obligation fulfilled, measured by reference to hourly rates.

In recognising recurring Managed IT Services revenues, the Group recognises revenue equally over the duration of the contractual term. Sales commission and third-party costs (where relevant) relating to these services are shown within Contract Assets and are spread equally over the duration of the contractual term, in line with when the customer benefits from the services. Internal technical resources utilised in setting up recurring Managed IT Services over twelve months in duration are capitalised at the start of the contract within Contract Assets and spread equally over the duration of the contractual term.

d) Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the statement of financial position date. All exchange differences are recognised in the Consolidated Income Statement.

e) Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. The depreciation policy is contained in principal accounting policy (i).

f) Right of use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received and any initial direct costs incurred

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

g) Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the Consolidated Income Statement.

h) Exceptional items and Plc costs

Items which are material either because of their size or their nature, are highlighted separately on the face of the Consolidated Income Statement. The separate reporting of these items helps provide a better picture of the Group's underlying performance. Items which may be included within this category include, but are not limited to, acquisition costs, spend on the integration of significant acquisitions and other major restructuring or rationalisation programmes, significant goodwill or other asset impairments and other particularly significant or unusual items.

Exceptional items are excluded from the headline profit measures used by the Group and are highlighted separately in the Consolidated Income Statement as management believe that they need to be considered separately to gain an understanding of the underlying profitability of the trading businesses.

Note 4 contains more detail on exceptional items.

Plc costs are non-trading costs, relating to the Board of Directors of the Parent Company, it's listing on the AIM Market of the London Stock Exchange and its associated professional advisors.

i) Depreciation

Depreciation is calculated on a straight-line basis so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

IT equipment	–	three to four years
Fixtures, fittings and leasehold improvements	–	three to four years
Plant, machinery and Motor vehicles	–	three to four years
Right of use asset	–	over the remaining term of the lease

Material residual value estimates are updated as required, but at least annually.

j) Intangible assets

Intangible assets mainly comprise the fair value of customer bases and other identifiable assets acquired which are not included on the balance sheets of the acquired companies. A fair value calculation is carried out based on evaluating the net recurring income stream from each type of intangible asset. Intangible assets are initially recognised at fair value, and are subsequently carried at this fair value, less accumulated amortisation and impairment. The following items were identified as part of the acquisitions of entities by the Group and were still owned at 30 September 2021:

Notes to the consolidated financial statements (continued)

j) Intangible assets (continued)

- IT and billing systems amortised over three years;
- customer lists amortised over five to ten years; and
- brands amortised over ten years.

The allocation of fair values to the tangible assets and the identification and valuation of intangible assets affect the calculation of goodwill recognised in respect of an acquisition and as such represent a key source of estimation uncertainty. Refer to principal accounting policy (v).

k) Impairment testing of goodwill, other intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash generating unit ("CGU") level. Goodwill is allocated to those CGUs that are expected to benefit from the synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Impairment reviews are carried out using multi-year cash flow projections from the approved budgets of the Group. These are discounted using a discount rate specific to each CGU. Forecast cash flows beyond 5 years assume steady growth at no more than the long-term average growth rate for the United Kingdom. The discount rate for each CGU reflects the time value of money and the nature and risks of the CGU.

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 fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses are credited to the carrying amount of the relevant asset. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

l) Leases

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. Any variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

m) Inventories and work in progress

Inventories are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. The cost is calculated using the FIFO basis. Work in progress relates to costs incurred on part-completed work.

n) Taxation

Current tax is the tax currently payable based on taxable results for the year. Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets. Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting date.

Notes to the consolidated financial statements (continued)

n) Taxation (continued)

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the Consolidated Income Statement, except where they relate to items that are charged or credited directly to equity, in which case the related deferred tax is also charged or credited directly to equity.

o) Financial assets

All financial assets are initially recognised at fair value, plus transaction costs and subsequently measured at amortised cost.

Trade receivables are held in order to collect the contractual cash flows and are initially measured at the transaction price as defined in IFRS 15, as the contracts of the Group do not contain significant financing components. Impairment losses are recognised based on lifetime expected credit losses in profit or loss.

The Group reviews the amount of credit loss associated with its trade receivables based on forward looking estimates, taking into account current and forecast credit conditions Details of the expected credit loss provision for trade receivables is shown in note 13.

Other receivables are held in order to collect the contractual cash flows and accordingly are measured at initial recognition at fair value, which ordinarily equates to cost and are subsequently measured at cost less impairment due to their short-term nature. A provision for impairment is established based on 12-month expected credit losses unless there has been a significant increase in credit risk when lifetime expected credit losses are recognised. The amount of any provision is recognised in profit or loss.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Derecognition of financial assets occurs when the rights to receive cash flows from the instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken, at least, at each reporting date.

Interest and other cash flows resulting from holding financial assets are recognised in the Consolidated Income Statement when receivable.

p) Cash and cash equivalents

Cash at bank and in hand comprises cash on hand and demand deposits.

q) Financial liabilities

Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Group becomes a party to the contractual provisions of the instrument. All financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. All interest-related charges are recognised as an expense in "finance costs" in the Consolidated Income Statement. Loan notes are raised for support of long-term funding of the Group's operations. The financial liability arising on the loan notes is carried at amortised cost.

Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the Consolidated Income Statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Modification of the terms of a liability is accounted for as an extinguishment of the original liability and recognition of a new liability when the modification is substantial. A modification is deemed to be substantial if the net present value of the cash flows under the modified terms, including any fees paid or received, is at least 10 per cent different from the net present value of the remaining cash flows of the liability prior to the modification, both discounted at the original effective interest rate of the liability prior to the modification

r) Issued share capital

Ordinary shares are classified as equity. Incremental costs attributable to the issue of shares or options are recorded in equity as a deduction from proceeds.

s) Employee benefits

Share-based payment – equity-settled

All material share-based payment arrangements are recognised in the financial statements. All goods and services received in exchange for the grant of any share-based remuneration are measured at their fair values. Fair values of employee services are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All share-based remuneration is ultimately recognised as an expense in the Consolidated Income Statement with a corresponding credit to "other reserve". If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates.

Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received, net of attributable transaction costs, are credited to share capital and share premium.

Notes to the consolidated financial statements (continued)

s) Employee benefits (continued)

Share-based payment – modification, cancellation and issue of replacement awards.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

t) Pension

The Group makes payments to defined contribution retirement benefit plans that are charged as an expense as they fall due. Payments are made on the basis of a percentage of qualifying salary for certain employees to personal pension schemes.

u) Government Grants

The Group has received funding from various Government sources in relation to COVID-19. Government income is recognised in profit or loss (within other income) on a systematic basis over the periods in which the Group recognises costs for which the grants are intended to compensate. Where it is not yet considered highly probable that Government funding will not have to be repaid, this element is deferred on the balance sheet within other creditors.

v) Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

The allocation of fair values to the tangible assets and the identification and valuation of intangible assets requires judgement in the selection of appropriate valuation techniques and inputs and affect the goodwill and the assignment of that to each cash generating unit, recognised in respect of the acquisitions (note 22). Estimates and judgements around the allocation of fair values are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Valuation of Intangible assets

Intangible assets are non-physical assets which have been obtained as part of an acquisition and which have an identifiable future economic benefit to the Group at the point of acquisition. Customer bases are valued at acquisition by measuring the estimated future discounted cash flows over a ten-year period from the date of acquisition, depending on class and date of acquisition and assuming a diminution for retention rate specific to each customer base, calculated using the average actual retention rate over the prior three or five-year period. All future cash flows are discounted using a discount rate, based on the internal rate of return for each asset, calculated over its useful economic life.

Determining whether intangible assets, including goodwill, are impaired requires an estimate of whether there is an impairment indicator. The key estimates for the carrying value of intangible assets are the cash flows associated with the intangible assets and a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Each of the intangible assets held by the Group is measured regularly to ensure that they generate discounted positive cash flows.

Where there is indication of impairment, the intangible asset is impaired by a charge to the Consolidated Income Statement. Further details on the impairment tests are shown in principal accounting policy (j) above and note 10.

3. Segment reporting

The Chief Operating Decision Maker ("CODM") has been identified as the executive directors of the Company and its subsidiaries, who review the Group's internal reporting in order to assess performance and to allocate resources.

The CODM assess profit performance principally through adjusted profit measures consistent with those disclosed in the Annual Report and Accounts. The Board believes that the Group comprises a single reporting segment, being the provision of IT managed services to customers. Whilst the CODM reviews the revenue streams and related gross profits of two categories separately (Managed IT Services and Value added resale), the operating costs and operating asset base used to derive these revenue streams are the same for both categories and are presented as such in the Group's internal reporting.

Notes to the consolidated financial statements (continued)

3. Segment reporting (continued)

The segmental analysis below is shown at a revenue level in line with the CODM's internal assessment based on the following reportable operating categories:

Managed IT Services	–	This category comprises the provision of recurring IT services which either have an ongoing billing and support element or utilise the technical expertise of our people.
Value added resale	–	This category comprises the resale of one-time solutions (hardware and software) from our leading technology partners, including revenues from the More Computers e-commerce platform.

All revenues are derived from customers within the UK and no customer accounts for more than 10% of external revenues in both financial years. Inter-category transactions are accounted for using an arm's length commercial basis.

3.1 Analysis of continuing results

All revenues from continuing operations are derived from customers within the UK. In order to simplify our reporting of revenue, we have taken the decision to condense our reporting segments into two new categories – Managed IT Services and Value Added Resale. This analysis is consistent with that used internally by the CODM and, in the opinion of the Board, reflects the nature of the revenue. Trading EBITDA is reported as a single segment.

3.1.1 Revenue

	2021 £'000	2020 £'000
Managed IT Services	**5,648**	6,131
Value added resale	**2,459**	1,839
Total Revenue	**8,107**	7,970

3.1.2 Revenue

	2021 £'000	2020 £'000
Recognised at a point in time	**3,041**	2,558
Recognised over time	**5,066**	5,412
Total Revenue	**8,107**	7,970

4. Exceptional Items

Items which are material and non-routine in nature are presented as exceptional items in the Consolidated Income Statement.

	2021 £'000	2020 £'000
Costs relating to the acquisition of CloudCoCo Limited	—	(435)
Costs relating to the acquisition of Systems Assurance Limited and More Computers Limited	**(202)**	—
Costs relating to the Placing	**(171)**	—
Integration and restructure costs	**(68)**	(105)
Exceptional items	**(441)**	(540)

5. Operating loss

	2021 £'000	2020 £'000
Operating loss is stated after charging:		
Depreciation of owned assets	**22**	36
Depreciation of right of use assets	**75**	77
Short life lease expense	**34**	50
Amortisation of intangibles	**1,009**	1,623
Auditor's remuneration:		
– Audit of parent company	**20**	20
– Audit of subsidiary companies	**53**	50
– Other audit-related assurance services	**7**	7

Government grants of £67,000 (2020: £97,000) received as part of the Coronavirus Job Retention Scheme ("furlough") are recorded as Other Income in the income statement.

Notes to the consolidated financial statements (continued)

6. Finance income and finance costs

Finance cost includes all interest-related income and expenses. The following amounts have been included in the Consolidated Income Statement line for the reporting periods presented:

	2021 £'000	2020 £'000
Interest income resulting from short-term bank deposits	**1**	1
Finance income	**1**	1
Interest expense resulting from:		
Lease liabilities	**12**	27
MXC rolling working capital facility	**12**	9
Loan note interest	**420**	398
Interest on Government related COVID19 VAT deferral scheme	**6**	3
Effective interest on liability element of the loan notes measured at amortised cost	**85**	81
Finance costs	**535**	518

Loan note interest includes £420,000 (2020: £398,000) which is accrued and is only payable when the loan notes are repaid in 2024 or earlier if the Group chooses.

7. Employee costs

7.1 Directors and employees

At 30 September 2021, the Group employed 57 staff (2020: 51). The average number of staff employed by the Group during the financial year amounted to 50 (2020: 51) as follows:

	2021	2020
Management staff	**11**	11
Operational staff	**39**	40
Total	**50**	51

Employee numbers are stated including executive and non-executive Directors.

7.2 Employee remuneration including directors

	2021 £'000	2020 £'000
Wages and salaries	**2,248**	2,320
Pension contributions	**49**	56
Social security costs	**234**	249
Total	**2,531**	2,625

There were £5,300 of pension contributions payable at the reporting date (2020: £4,000).

7.3 Directors

Details of individual Directors' emoluments for the year are as follows:

	Fees and salaries		Employer's NI contributions		Other benefits		Totals (including employer's NI)	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
Non-Executive								
S Duckworth	**34**	32	**3**	3	—	—	**37**	35
T Black (resigned 31 March 2020)	—	16	—	2	—	—	**—**	18
J Collighan[1]	**32**	38	—	—	—	—	**32**	38
A Mills	**28**	13	—	—	**—**	**—**	**28**	13
Executive								
M Halpin (in office 31 March 2020 to 30 September 2021)[2]	**111**	107	**15**	14	**16**	4	**142**	125
M Lacey (resigned 8 June 2021)	**62**	60	**8**	7	**2**	3	**72**	70
D Giddens (in office 9 June 2021 to 30 September 2021)[2]	**36**	—	**5**	—	**14**	—	**55**	—
Total	**303**	266	**31**	26	**32**	7	**366**	299

Other benefits include £4,000 (FY20: £3,000) in respect of pension contributions for M Halpin and £3,000 (FY20: £2,000) in respect of pension contributions for D Giddens. Additional benefits for M Halpin and D Giddens relate to share based payments.

1. fees in relation to J Collighan are paid to MXC Capital Advisory Limited (see note 23).
2. fees in relation to M Halpin and D Giddens only show the period since joining the Board.

7.4 Share-based payments

(i) Share option plans for employees

The Company has an HMRC-approved EMI share option scheme for certain staff and senior management. There is also an unapproved share option scheme in place which is used where the individuals do not fall under the rules of the approved scheme.

The unapproved scheme has no set term and the current arrangements continue until further notice. In both schemes, upon vesting, each option allows the holder to purchase one Ordinary Share at the pre-agreed option price. All share-based employee remuneration will be settled in equity. The Group has no legal or other obligation to repurchase or settle the options.

During the year the Company issued 58,190,500 share options (2020: nil) as part of the Company's new 'CoCo-One' initiative in which all qualifying colleagues were awarded options to encourage shared ownership and enhance retention, recruitment and incentivisation across the business. The share options, which have an exercise price of 1 pence per Ordinary Share, can be exercised at any time between 20 November 2022 (or earlier if there is a qualifying transaction) and 20 November 2030.

The share options will only accrue value in the event the Company's share price being greater than 2 pence per Ordinary Share at the date of exercise, thereby aligning the interests of recipients with those of shareholders. Some members of the Senior Management Team have additional performance criteria attached to proportion of their share options, requiring trading overheads to be covered by recuring gross profits. A number of employees who held share options at 1 October 2020, waived their entitlement to 4,747,692 share options on 20 November 2020, in order to participate in the 'CoCo-One' option scheme.

In addition to the share options granted in the year, 11,100,500 share options lapsed (2020: 3,800,000) in accordance with the share issue documents. At 30 September 2021, the Company had granted the following outstanding share options:

	2021 Number	**2021 Weighted average exercise price**	2020 Number	2020 Weighted average exercise price
Outstanding at 1 October	**4,747,692**	8.6p	8,547,692	5.2p
Granted	**58,190,500**	1.0p	—	—
Waived	**(4,747,692)**	8.6p	—	—
Lapsed	**(9,965,500)**	1.0p	(3,800,000)	1.0p
Outstanding at 30 September	**48,225,000**	1.0p	4,747,692	8.6p

The outstanding share options were granted on 20 November 2020 and all preceding share options were waived and cancelled as follows:

Date granted	**Balance 2021**	Movement during the year	**Balance 2020**	Exercise price	Dates exercisable	Remaining contractual life (months)
25 March 2015	**—**	(207,692)	**207,692**	1.00p	25 March 2018–25 March 2025	**—**
28 September 2016	**—**	(4,540,000)	**4,540,000**	9.00p	28 September 2019–28 September 2026	**—**
20 November 2020	**48,225,000**	48,225,000	**—**	1.00p	20 November 2022–20 November 2030	110
Total	**48,225,000**	43,477,308	**4,747,692**	1.00p		

In determining the fair value of the share options granted on 20 November 2020, the Company assessed the historical share price volatility associated with the Company's share price and the effective risk-free rate of interest inherent in the debt element of this instrument. The fair value was calculated using a Black-Scholes model with inputs using an historical volatility rate of 40% and a risk-free interest rate of 1%.

(ii) Non-employee share options and warrants

On 3 September 2021, the Company issued 4,000,000 share warrants at a subscription Price of 1.5p per Ordinary Share to the vendors of Systems Assurance Limited and More Computers Limited (the "Acquired Companies") in order to incentivise them to further assist with the integration of the business beyond the initial acquisition.

The share warrants can be exercised in the period commencing 3 March 2022 up to and including 3 March 2031. The exercise of the share warrants is conditional upon the Company's share price in the five consecutive days preceding relevant notice of exercise being not less than 2 pence per ordinary share and the prior six months' revenue from new or qualifying customers in the Acquired Companies being at least £3,200,000 calculated on the last day of the calendar month starting 50 days before the date of the relevant notice of exercise.

Notes to the consolidated financial statements (continued)

7.4 Share-based payments (continued)

The total share-based payments charge/(credit) included in the Consolidated Income Statement is:

	2021 £'000	2020 £'000
Share options	**217**	(26)
Share warrants	**—**	—
Total	**217**	(26)

8. Income tax

	2021 £'000	2020 £'000
Current tax		
UK corporation tax for the period at 19% (2020: 19%)	**—**	—
Deferred tax		
Deferred tax charge / (credit) on intangible assets	**83**	(288)
Total tax charge / (credit) for the year	**83**	(288)

The relationship between expected tax (credit) / expense based on the standard rate of tax in the UK of 19% (2020: 19%) and the tax expense actually recognised in the Consolidated Income Statement can be reconciled as follows:

	2021 £'000	2020 £'000
Loss for the year before tax:	**(2,045)**	(2,967)
Tax rate	**19%**	19%
Expected tax credit	**(389)**	(564)
Adjusted for:		
Non-deductible expenses	**59**	91
Change in tax rates	**334**	—
Differences in tax rates	**(60)**	—
Movement in unprovided deferred tax relating to losses	**135**	191
Short-term timing differences	**4**	(6)
Total tax charge / (credit) for the year	**83**	(288)

The Group has unrecognised deferred tax assets in respect of tax losses carried forward totalling £2,196,000 (2020: £1,522,000). Deferred tax assets remain unrecognised until it becomes probable that the underlying deductible temporary differences will be able to be utilised against future taxable income. During the year, the substantively enacted tax rate increased from 19% to 25%, the impact shown in the table above.

9. Loss per share

	2021 £'000	2020 £'000
Loss attributable to ordinary shareholders	**(2,128)**	(2,679)

		Number
Weighted average number of Ordinary Shares in issue, basic and diluted	**510,759,930**	478,427,400
Basic and diluted loss per share	**(0.42)p**	(0.56)p

The weighted average number of ordinary shares for the purpose of calculating the basic and diluted measures is the same. This is because the outstanding share incentives, details of which are given in Note 7, would have the effect of reducing the loss per ordinary share and therefore would be anti-dilutive under the terms of IAS 33.

Notes to the consolidated financial statements (continued)

10. Intangible assets

Intangible assets are non-physical assets which have been obtained as part of an acquisition or research and development activities, such as innovations, introduction and improvement of products and procedures to improve existing or new products. All intangible assets have an identifiable future economic benefit to the Group at the point the costs are incurred. The amortisation expense is recorded in administrative expenses in the Consolidated Income Statement

Intangible assets	Goodwill £'000	IT, billing and website systems £'000	Brand £'000	Customer lists £'000	Total £'000
Cost					
At 1 October 2019	**4,447**	**182**	**1,157**	**7,580**	**13,366**
Business combinations (note 22.1)	5,388	—	500	1,700	7,588
At 30 September 2020	9,835	182	1,657	9,280	20,954
Business combinations (note 22.1)	253	179	470	141	1,043
At 30 September 2021	**10,088**	**361**	**2,127**	**9,421**	**21,997**
Accumulated amortisation					
At 1 October 2019	**—**	**(47)**	**(380)**	**(2,680)**	**(3,107)**
Charge for the year	—	(111)	(598)	(914)	(1,623)
At 1 October 2020	—	(158)	(978)	(3,594)	(4,730)
Charge for the year	—	(26)	(54)	(929)	(1,009)
At 30 September 2021	**—**	**(184)**	**(1,032)**	**(4,523)**	**(5,738)**
Impairment					
At 1 October 2019	**(4,447)**	**—**	**(225)**	**(1,193)**	**(5,865)**
Charge in the year	**—**	**—**	**—**	**—**	**—**
At 1 October 2020	(4,447)	—	(225)	(1,193)	(5,865)
Charge in the year	**—**	**—**	**—**	**—**	**—**
At 30 September 2021	**(4,447)**	**—**	**(225)**	**(1,193)**	**(5,865)**
Carrying amount					
At 30 September 2021	**5,641**	**177**	**870**	**3,705**	**10,393**
At 30 September 2020	5,388	24	454	4,493	10,359
Average remaining amortisation period		**9.9 years**	**9.0 years**	**3.9 years**	**9.8 years**

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are independent cash flows (cash generating units). Goodwill is allocated to those assets that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows. The directors concluded that at 30 September 2021, there were three CGUs being CloudCoCo Limited, Systems Assurance Limited and More Computers Limited.

Each year, management prepares the resulting cash flow projections using a value in use approach to compare the recoverable amount of the CGU to the carrying value of goodwill and allocated assets and liabilities. Any material variance in this calculation results in an impairment charge to the Consolidated Income Statement.

Impairment tests were not performed in respect of Systems Assurance Limited and More Computers Limited as the goodwill and intangible assets acquired as part of the business combination were measured in September 2021.

The calculations used to compute cash flows for the CGU level are based on the Group's budget, growth rates, WACC and other known variables. The calculations are sensitive to movements in both WACC and the revenue growth projections.

The impairment calculations were performed using post-tax cash flows at post-tax WACC of 11.25% (FY20: 12%). The pre-tax discount rate (weighted average cost of capital) was calculated at 15% per annum (FY20:15%) and the revenue growth rate is 5% per annum (FY20: 5%) for 5 years and a terminal growth rate of 2% (FY20: 2%) per annum.

Sensitivities have been run on cash flow forecasts for the CGU. Management is satisfied that the key assumptions of revenue growth rates should be achievable and that reasonably possible changes to those key assumptions would not lead to the carrying amount exceeding the recoverable amount. Sensitivity analyses have been performed and the table below summarises the effects of changing certain key assumptions and the resultant excess (or shortfall) of discounted cash flows against the aggregate of goodwill and intangible assets.

Notes to the consolidated financial statements (continued)

10. Intangible assets (continued)

Sensitivity analysis	CloudCoCo Group plc £'000
Excess of recoverable amount over carrying value:	
Base case – headroom	1,945
Pre-tax discount rate increased by 1% - resulting headroom	1,456
Revenue growth rate reduced in year 3 to 5 by 1% per annum – resulting headroom	1,813

Base case calculations highlight that the impairment review is sensitive to the discount rate and growth rate.

11. Property, plant and equipment

	Right of Use Assets £'000	IT equipment £'000	Fixtures, fittings and leasehold improvements £'000	Total £'000
Cost of assets				
At 1 October 2019	—-	**254**	**94**	**348**
Right of use assets recognised on transition to IFRS16	257	(56)	(53)	148
Additions	28	42	—	70
Business combinations (note 22)	51	3	—	54
At 30 September 2020	**336**	**243**	**41**	**620**
Additions	—	24	7	31
Disposals	(58)	—	—	(58)
Business combinations (note 22)	—	—	1	1
At 30 September 2021	**278**	**267**	**49**	**594**
Depreciation				
At 30 September 2019	—	**193**	**93**	**286**
Right of use assets recognised on transition to IFRS16	87	(34)	(53)	—
Charge for the year	77	35	1	113
At 30 September 2020	164	**194**	**41**	**399**
Charge for the year	75	20	2	97
Disposals	(51)	—	—	(51)
At 30 September 2021	**188**	**214**	**43**	**445**
Net book value				
At 30 September 2021	**90**	**53**	**6**	**149**
At 30 September 2020	172	49	—	221

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The net book value of right of use assets at 30 September 2021 comprised:

	Land & buildings £'000	IT equipment £'000	Motor Vehicles £'000	Total £'000
At 30 September 2021	**78**	—	**12**	**90**
At 30 September 2020	162	3	7	172

12. Inventories

	2021 **£'000**	2020 £'000
Consumables	**57**	21
Work in progress	**29**	10
Inventories	**86**	31

Notes to the consolidated financial statements (continued)

13. Trade and other receivables

	2021 £'000	2020 £'000
Trade receivables	**1,781**	985
Other debtors	**112**	6
Contract assets	**232**	101
Prepayments	**828**	764
Trade and other receivables	**2,953**	1,856

The Group reviews the amount of expected credit loss associated with its trade receivables and contract assets under IFRS 9 based on forward looking estimates that take into account current and forecast credit conditions as opposed to relying on past historical default rates. In adopting IFRS 9 the Group applied the Simplified Approach applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customers with different credit risk profiles and current and forecast trading conditions.

At 30 September 2021 trade receivables amounting to £281,000 (2020: £260,000) were past due but not impaired. The age of trade receivables not impaired is as follows:

	2021 £'000	2020 £'000
Less than 30 days	**1,062**	548
30–59 days	**293**	178
60–89 days	**145**	68
90–119 days	**32**	41
120+ days	**249**	150
	1,781	985

Trade receivables at the reporting date comprise amounts receivable from the provision of the Group's products and services. The average credit period taken on the provision of these services is 40 days (2020: 38 days). Trade receivables are stated net of an impairment for estimated irrecoverable amounts of £45,000 (2020: £153,000). During the year, £109,000 of the opening impairment provision of £153,000 from 1 October 2020, was subsequently collected and £37,000 was utilised in the write-off of unrecoverable balances from customers, before a further impairment provision of £38,000 was made, resulting in a Group provision for impairment of trade receivables of £45,000 at 30 September 2021.

At period end, customers were categorised into three categories based on spend in the last 12 months:

1. Top 10 customers, 2. Next 50 customers and 3. Others

Specific provisions are also made based on known issues or changes in the lifetime expected credit loss.

Category	Impairment Rate
Top 10 customers	0.0%
Next 50 customers	2.8%
Other customers	3.0%

Category	2021 £'000 Gross Trade Receivables	2021 £'000 Impairment Provision	2021 £'000 Net Trade Receivables	2021 Impairment Rate
Top 10 customers	**726**	**(8)**	**718**	**1.1%**
Next 50 customers	**373**	**(15)**	**358**	**4.0%**
Other customers	**727**	**(22)**	**705**	**3.0%**
	1,826	**(45)**	**1,781**	**2.5%**

Category	2020 £'000 Gross Trade Receivables	2020 £'000 Impairment Provision	2020 £'000 Net Trade Receivables	2020 Impairment Rate
Top 10 customers	631	(103)	528	16.3%
Next 50 customers	377	(30)	347	8.0%
Other customers	130	(20)	110	15.4%
	1,138	(153)	985	13.4%

Notes to the consolidated financial statements (continued)

Credit risk

The Group's main risk relates to trade receivables which are stated net of the provisions above. No collateral is held as security against these debtors and the carrying value represents the fair value. The Group does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognised represent a large number of receivables from various customers, including some government authorities.

14. Cash and cash equivalents

	2021 £'000	2020 £'000
Cash at bank and in hand	**1,183**	588

Cash balances are held with a small number of counterparties. There were no borrowing facilities in place at 30 September 2021 or 30 September 2020, other than the loan notes issued to MXC Guernsey Limited, the working capital facility provided by MXC Guernsey Limited and the COVID-19 Bounce Back Loan (Note 17).

15. Trade and other payables

	2021 £'000	2020 £'000
Trade payables	**2,008**	1,388
Accruals	**433**	460
Other taxes and social security costs	**431**	617
	2,872	2,465

16. Contract liabilities

	2021 £'000	2020 £'000
Contract liabilities – short-term element	**177**	565
Contract liabilities – long-term element	**1,092**	364
	1,269	929

	2021 £'000	2020 £'000
At 1 October	**929**	607
Additions	**905**	896
Recognised in revenue in the year	**(565)**	(574)
At 30 September	**1,269**	929

Contract liabilities increased by £0.4 million in the year as a result of customers purchasing multi-year support contracts in advance in return for a lower average annual cost. Contract liabilities arise when income is deferred to the Statement of Financial Position due to invoicing of revenue to customers occurring ahead of revenue recognition in the Income Statement. The long-term element will be recognised within 60 months of the balance sheet date (2020: 60 months).

The aggregate amount of the transaction price (the total contract value) allocated to unsatisfied performance obligations at 30 September 2021 was £3.7 million (2020: £3.5 million) and is expected to be recognised as revenue in future periods as follows:

	2021 £'000	2020 £'000
Within 6 months	**1,219**	**1,607**
6 to 12 months	**827**	**882**
12 to 24 months	**1,174**	**794**
Greater than 24 months	**478**	**194**
	3,698	**3,477**

17. Borrowings

17.1 Current

	2021 £'000	2020 £'000
COVID-19 Bounce-back loan repayable – short-term element	**17**	4
Deferred consideration for acquisition of Systems Assurance Limited and More Computers Limited	**155**	—
MXC Guernsey Limited working capital facility	—	100
	172	104

17.2 Non-current

	2021 £'000	2020 £'000
Loan notes	**3,412**	3,014
Accrued interest on loan notes repayable in October 2024	**496**	398
Loan notes (note 19}	**3,908**	3,412
COVID-19 Business Bounce-back loan acquired with More Computers Limited	**44**	—
COVID-19 Business Bounce-back loan repayable – long-term element	**39**	46
	3,991	3,458

On 10 May 2020, the Company borrowed £50,000 from HSBC Bank UK Plc, under the COVID-19 Business Bounce-back loan scheme. In accordance with the UK Government's Business Interruption Payment scheme, the interest on the loan for the first 12 months is covered by the UK Government and the Company will repay the loan in 59 equal monthly instalments, commencing June 2021.

As part of the acquisition of More Computers Limited on 6 September 2021, the Company inherited a COVID-19 Business Bounce-back loan of £50,000 between More Computers Limited and NatWest Bank Plc. In accordance with the UK Government's Business Interruption Payment scheme, the interest on the loan for the first 12 months is covered by the UK Government and the Company will repay the loan in 59 equal monthly instalments, commencing March 2022.

17.3 Net debt – net debt comprises:

	2021 £'000	Cash movements £'000	Other movements £'000	2020 £'000
Loan notes	**3,908**	—	496	3,412
COVID-19 Bounce-back loans	**100**	—	50	50
MXC Guernsey Limited working capital facility	**—**	(100)	—	100
Lease liabilities	**97**	(120)	34	183
Cash and cash equivalents	**(1,183)**	(595)	**—**	(588)
Total	**2,922**	(815)	580	3,157

18. Lease Liabilities

	2021 £'000	2020 £'000
Opening balance	**183**	48
Recognised at 1 October 2019 following adoption of IFRS 16	**—**	148
Additions	**—**	28
Leases acquired on the acquisition of Systems Assurance Limited	**34**	114
Related interest expense	**8**	28
Repayment of lease liabilities	**(128)**	(183)
Closing balance	**97**	183

	2021 £'000	2020 £'000
Current	**86**	**122**
Non-current	**11**	**61**
	97	**183**

The total cash outflows from leases (including lower value and short-life leases) in the financial year was £154,000 (2020: £205,000)

19. Financial instrument

On 26 May 2016, the Company issued £5m unsecured loan notes ("Loan Notes") to the Business Growth Fund ("BGF") with a seven-year term (although redemption was permissible from the third anniversary) with repayment between the fifth and seventh anniversaries in equal semi-annual repayments that carry interest at 8% per annum ("Coupon"). On the same date, the Company also agreed to grant the BGF an option to subscribe for 50,000,000 Ordinary Shares of 1p at a subscription price of 6p any time before 26 May 2031. As the Loan Notes were unsecured, no collateral was offered to the BGF as security. The Loan Notes were not exposed to market interest rate increases over the term.

In the opinion of the directors, the Loan Notes and share option elements were linked and were therefore treated as a single financial instrument. In accordance with IAS 32, the Loan Notes were recorded at a fair value of £3.6m which was measured using a discounted cash flow model over the seven-year term of the instrument and an effective interest rate of 15%. The difference to the consideration received represented the element attributable to the options, which was credited to equity. The Loan Notes were subsequently measured at amortised cost whereby the difference between the face value of the Loan Notes and their fair value on initial recognition is recognised as an effective interest charge over the term of the instrument.

Notes to the consolidated financial statements (continued)

19. Financial instrument (continued)

On 21 October 2019, the Company and BGF agreed to modify the exercise price of the share options and the options were immediately exercised. The directors consider this to be in consideration for the extinguishment of Loan Notes with a principal amount of £1.5m and accrued interest of £0.1m. In accordance with IAS 32, the carrying value of the Loan Notes that were extinguished, £1.3m, has been derecognised and recorded in equity; no gain or loss has been recognised in the Consolidated Income Statement.

On the same date, the remaining loan notes with a principal amount of £3.5m were acquired by a MXC Guernsey Limited, a subsidiary of MXC Capital (UK) Limited. The terms of the loan notes were revised by increasing the coupon to 12% per annum compound, rolled up and payable at maturity, and extending the term to October 2024. When measured using the loan notes' original effective interest rate, the present value of the cash flows of the revised instrument were not significantly different to that of the instrument prior to the modification. As a result, the Loan Notes were not treated as a new instrument and continue to be measured at amortised cost.

20. Deferred tax liabilities

	Deferred tax on acquired intangibles £'000
Deferred tax liability at 30 September 2019	810
Deferred tax on acquisition of CloudCoCo Limited	418
Credited to income statement – on intangibles	(288)
Deferred tax liability at 30 September 2020	**940**
Deferred tax on acquisition of Systems Assurance Limited	165
Change in effective tax rate from 19% to 25%	334
Credited to income statement – on intangibles	(251)
Deferred tax liability at 30 September 2021	**1,188**

21. Share capital and reserves

Share capital and reserves comprises the following:

- "Share capital" represents the nominal value of equity shares;
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares; net of expenses of the share issue;
- "Capital redemption reserve" represents the nominal value of cancelled Deferred Shares;
- "Merger reserve" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, in connection with acquisitions;
- "Other reserve" represents equity-settled share-based employee remuneration until such share options are exercised. In the financial statements at 30 September 2019 other reserves also included the equity element in the form of share options, contained in the financial instrument issued to the Business Growth Fund on 26 May 2016.
- Retained earnings reserve" represents retained profits and accumulated losses.

21.1 Placing

On 2 September 2021, the Company raised £2.1 million before expenses through a conditional Placing arranged by Allenby Capital of 210,990,000 new Ordinary Shares at a price of 1 penny per share to fund growth by acquisition and provide additional working capital to fund the subsequent integration. The Placing was carried out at an approximate 13 per cent. discount to the Company's closing price of 1.15p per share on Monday 16 August 2021. Costs relating to the Placing were £171,000 and were expensed in the income statement during the year.

Notes to the consolidated financial statements (continued)

21.2 Share capital

Shares issued and fully paid

	2021 £'000	2020 £'000
Beginning of year	**4,952**	2,271
Issue of 210,990,000 shares at 1p per share via a Placing (note 21)	**2,110**	—
Issued during year to BGF on exercise of options	**—**	500
Issued during year to CloudCoCo Limited vendors	**—**	2,181
Shares issued and fully paid	**7,062**	4,952

Share capital allotted, called up and fully paid

	2021 No. Ordinary Shares	2020 No. Ordinary Shares
Ordinary shares of £0.01p	**706,215,686**	495,225,986

21.2 Share premium

	2021 £'000	2020 £'000
Beginning of year	**17,630**	11,337
Arising on extinguishment of BGF Loan Notes in consideration of 50,000,000 shares at 0.35p per share (note 19)	**—**	1,275
Arising on issue of shares to CloudCoCo Limited vendors at 3.3p	**—**	5,018
End of year	**17,630**	17,630

21.3 Capital redemption reserve

At the Company's Annual General Meeting on 27 March 2015, the Company was authorised to enter into a contract for the off-market purchase of all of the Deferred Shares of £0.009 each in its capital for cancellation. A single new Ordinary Share of £0.01 was issued by the Company on that date to finance the off-market purchase. In accordance with Section 733 of the Companies Act 2006, this cancellation of shares created a capital redemption reserve. Article 3 of the Companies (Reduction of Share Capital) Order 2008 (SI 2008/1915) allows such reduction to be treated as a realised profit and it therefore may be used to distribute to shareholders or used to buy back shares.

21.4 Merger reserve

The merger reserve represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, in connection with acquisitions.

21.5 Other reserve

	2021 £'000	2020 £'000
Beginning of year	**122**	1,720
Arising on extinguishment of BGF Loan Notes in consideration of 50,000,000 shares at 0.35p per share (note 19)	**—**	(1,330)
Cancellation of 11,353,255 share warrants held by MXC Guernsey Limited on acquisition of CloudCoCo Limited	**—**	(242)
Share based payments adjustment	**217**	(26)
End of year	**339**	122

21.6 Retained earnings

	2021 £'000	2020 £'000
Beginning of year	**(26,214)**	(24,925)
Arising on loss and total comprehensive loss for the period	**(2,018)**	(2,679)
Arising on extinguishment of BGF Loan Notes in consideration of 50,000,000 shares at 0.35p per share (note 19)	**—**	1,148
Cancellation of 11,353,255 share warrants held by MXC Guernsey Limited on acquisition of CloudCoCo Limited	**—**	242
End of year	**(28,232)**	(26,214)

Notes to the consolidated financial statements (continued)

22. Acquisitions during the year

22.1 Acquisition of Systems Assurance Limited

On 6 September 2021, the Group acquired the entire issued share capital of Systems Assurance Limited and its wholly owned subsidiary More Computers Limited, for £1.72 million, including the return of £731,000 of excess cash-assets to the vendors to acquire the business on a cash-free debt-free basis. The remaining £991,000 was settled as £836,000 on completion with the remaining £155,000 being paid in November 2021, following agreement of the Completion Statement.

The acquisition of Systems Assurance Limited and More Computers Limited increased FY21 Trading EBITDA[1] performance in the year by £30,000, having only been acquired on 3 September 2021. It is not practical to measure the impact on the full FY21 trading results, given a number of material differences in the cost and remuneration structure of the businesses pre-acquisition. The Group has assessed the combined fair value of the acquisition of Systems Assurance Limited and More Computers Limited as follows:

	Book Cost £'000	Fair Value Adjustment £'000	**Fair Value £'000**
Non-current assets			
Intangible assets – brand	—	470	**470**
Intangible assets – IT systems	—	179	**179**
Intangible assets – customer lists	—	141	**141**
Property, plant and equipment	1	34	**35**
Total non-current assets	1	824	**825**
Current assets			
Inventories	31	—	**31**
Trade and other receivables	967	—	**967**
Cash at bank	1,004	—	**1,004**
Total current assets	2,002	—	**2,002**
Total assets	2,003	824	**2,827**
Current liabilities			
Lease liability	—	(28)	**(28)**
Trade and other payables	(1,049)	—	**(1,049)**
Other taxes and social security costs	(52)	—	**(52)**
Deferred Income and accruals	(8)	—	**(8)**
	(1,109)	(28)	**(1,137)**
Non-current liabilities			
Borrowings	(50)	—	**(50)**
Lease liability	—	(6)	**(6)**
Deferred tax liability	—	(165)	**(165)**
Total liabilities	(1,159)	(199)	**(1,358)**
Net Assets	844	625	**1,469**
Consideration in cash - cash-free debt-free payment paid to vendors			**731**
Consideration in cash - initial consideration			**836**
Consideration in cash - deferred consideration			**155**
Fair value of cost of acquisition			**1,722**
Goodwill			**253**

Cash used to acquire the business net of cash acquired:	**£'000**
Cash at bank	**1,004**
Less cash-free debt-free payment paid to vendors	**(731)**
Net cash acquired	**273**
Acquisition date fair value of initial consideration transferred	**(836)**
Net cash used	**(563)**

Costs associated with the acquisition were £202,000 and were expensed during the year and are included in the statement of profit or loss and in operating cash flows in the statement of cash flows. The fair value of trade receivables is £968,000, with gross contractual amounts for trade receivables due of £983,000 of which £15,000 is not expected to be collected.

Notes to the consolidated financial statements (continued)

22.2 Acquisition of CloudCoCo Limited

On 21 October 2019, the Group acquired the entire issued share capital of CloudCoCo Limited for a total consideration of £7.2 million at fair value in accordance with IFRS 3. The consideration was satisfied in full by the issue of 218,160,586 new Ordinary Shares at 3.3p per share (being the mid-market price on the date of the acquisition). The Group assessed the fair value of the acquisition of CloudCoCo Limited as follows:

	Book Cost £'000	Fair Value Adjustment £'000	Fair Value £'000
Non-current assets			
Intangible assets – brand	-	500	500
Intangible assets – customer lists	-	1,700	1,700
Right of use assets	51	-	51
Property, plant and equipment	3	-	3
Total non-current assets	54	2,200	2,254
Current assets			
Trade and other receivables	302	-	302
Cash at bank	157	-	157
Total current assets	459	-	459
Total assets	**513**	**2,200**	**2,713**
Current liabilities			
Lease liability	(63)	-	(63)
Trade and other payables	(133)	-	(133)
Other taxes and social security costs	(24)	-	(24)
Deferred Income and accruals	(213)	-	(213)
	(433)	-	**(433)**
Non-current liabilities			
Lease liability	(51)	-	(51)
Deferred tax liability	-	(418)	(418)
Total liabilities	**(484)**	**(418)**	**(902)**
Net Assets	**29**	**1,782**	**1,811**
Consideration in cash			-
Consideration in shares			7,199
Fair value of cost of acquisition			**7,199**
Goodwill			**5,388**

	2020 £'000
Cash consideration paid	-
Cash acquired	**157**
Acquisition of CloudCoCo Limited, net of cash	**157**

The goodwill arising on this acquisition was attributable to the management team and the sales and marketing systems and methods operated by CloudCoCo Limited, which will benefit the Group. Direct acquisition costs amounting to £435,000 were written off to the income statement within exceptional items.

Notes to the consolidated financial statements (continued)

23. Related party transactions

Details of Directors' interests in the Company's shares, service contracts and remuneration are set out in the report of the Board to the members on Directors' remuneration on pages 19 and 20. The Directors are also considered to be the Group's Key Management Personnel and their remuneration details can be found in Note 7.

Mark Halpin, a Director of the Company had a 19.9% holding in the shares of the Company at 30 September 2021 and is considered to have a significant influence over the Group. Jill Collighan, a Director of the Company, is an employee of MXC Capital (UK) Limited ("MXC"), a wholly owned subsidiary of MXC Guernsey Limited ("MXCG"). At 30 September 2021, MXCG had a 10.6% holding in the shares of the Company and is considered to have a significant influence over the Group. No other Director had a material interest in any significant contract with the Company or any of its subsidiaries during the year save for those disclosed in the accounts.

During the year the Company purchased services including Non-Executive fees for Andy Mills of £28,266 (2020: £100,000) from CoCoNitro Limited, a company jointly owned by Mark Halpin and Andy Mills, of which £31,800 (2020: £70,000) was outstanding at the financial year end. In addition, during the year CloudCoCo Limited, sold £219,000 (2020: nil) of IT services and hardware to ViVoTech Limited, a Leeds based IT company in which CoCoNitro owns 50%. ViVoTech owed CloudCoCo Limited £6,000 at 30 September 2021.

Fees invoiced by MXC to the Company include £32,000 for Jill Collighan's services as Non-Executive Director, included as directors' emoluments in Note 7. Additionally, corporate finance advisory and transaction services were purchased from MXC as financial adviser to the Company. The Group purchased services totalling £60,000 (2020: £91,000) from MXC and at 30 September 2021 owed £310,000 to MXC (2020: £238,000).

As part of the refinancing in October 2019, MXCG, acquired £3.5 million loan notes of the Company, the terms of which were varied such that interest is charged at 12% compound per annum rolled up and payable only at the end of the term, which was also extended to October 2024 with no repayment due until that date unless the Company chooses to pay early. At 30 September 2021, the Company owed MXCG £4.4 million (2020: £3.9 million) in respect of the loan notes.

24. Contingent liabilities

There are no contingent liabilities at 30 September 2021 (2020: nil).

25. Risk management

The Group finances its activities through equity, loan notes and bank funds. No speculative treasury transactions are undertaken and during the last two years no derivative contracts were entered into. Financial assets and liabilities include those assets and liabilities of a financial nature, namely cash, trade and other receivables, trade and other payables, accruals, lease liabilities and borrowings. The Group is exposed to a variety of financial risks arising from its operating activities, which are monitored by the Directors and are reported in the principal risks and uncertainties contained within the Strategic Report on pages 10 to 12.

25.1 Cash and liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group policy throughout the year has been to ensure continuity of funding by a combination of loan note funding and the unused MXCG working capital facility of £0.5 million, which expires on 31 March 2022.

25.2 Interest rate risk

The interest rate on the Group's cash at bank is determined by reference to the bank rate. The Group has available credit card facilities with HSBC of up to £10,000 (2020: £10,000). The interest rate charged on finance leases and commercial loans is a fixed rate agreed at the time of signing the agreement. The interest rate charged by MXCG is at a fixed rate. No interest rate sensitivity analysis has been disclosed as the majority of the Group's borrowings are fixed.

25.3 Capital risk management

The Group's policy on capital structure is to maintain a level of gross cash available, which the Board considers to be adequate to fund a range of potential EBITDA movements, taken from a series of business projections and scenarios. Based on these business projections, the Board believes it has sufficient cash resources at its disposal to pursue its chosen strategy of maximising shareholder returns over the medium to long term from the customer base with a high proportion of contracted recurring revenues.

The Group manages its capital to ensure that trading entities in the Group will be able to continue as going concerns, while maximising the medium and long term returns to shareholders through the organisation of cash, debt and equity balances. The capital structure of the Group consists of cash at bank and in hand, debt and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity on page 33.

The Directors seek to promote recurring revenues to a wide range of business customers, to reduce the risks associated with fluctuations in the UK economy and to increase the long-term value to customers and shareholders. If required, the Group will subsidise one-off connection fees in order to generate contracted recurring revenues and secure longer-term business relationships with customers.

The declaration and payment by the Group of any future dividends on the Ordinary Shares and the amount will depend on the results of the Group's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at the time.

Notes to the consolidated financial statements (continued)

25.3 Capital risk management (continued)

Given the Group's stage of development, the Directors do not envisage that the Group will pay dividends in the foreseeable future and intend to reinvest surplus funds in the development of the Group's business. The Board will regularly review the appropriateness of its dividend policy.

In order to maintain or adjust the capital structure, the Group may adjust the amount of any pay-outs to the shareholders, return capital to the shareholders, issue new shares, make borrowings or sell assets to reduce debt.

25.4 Credit risk

The Group's policy is to monitor trade and other receivables and avoid significant concentrations of credit risk. The principal credit risk arises from trade receivables. Aged receivables reports are reviewed monthly as a minimum. The credit control function follows a policy of sending reminder letters that start once an invoice is over 30 days overdue. These culminate in a legal letter with the threat of legal action. In a limited number of cases, legal action has been pursued. An aged analysis of receivables is shown in Note 13 to the financial statements.

25.5 Risk management analysis

The information below provides an analysis of the financial assets and liabilities within the scope of IFRS 9 Financial Instruments required by IFRS 7 Financial Instruments: Disclosure. An analysis of the principal sums, relevant to an analysis of risk management, is as follows:

2021	Financial assets £'000	Non-financial assets £'000	Balance Sheet total £'000
Trade and other receivables	1,781	1,172	2,953
Other current assets	—	86	86
Cash at bank and in hand	1,183	—	1,183
	2,964	1,258	4,222

2020	Financial assets £'000	Non-financial assets £'000	Balance sheet total £'000
Trade and other receivables	985	871	1,856
Other current assets	—	31	31
Cash at bank and in hand	588	—	588
	1,573	902	2,475

Book value approximates to fair value.

2021	Other financial liabilities at amortised cost in the balance sheet £'000	Other liabilities not within scope of IFRS 9 £'000	Balance sheet total £'000
Trade and other payables	2,872	—	2,872
Contract liabilities – short-term element	—	177	177
Contract liabilities – long-term element	—	1,092	1,092
Borrowings – short-term element	172	—	172
Borrowings – long-term element	3,991	—	3,991
Lease liability	—	97	97
	7,035	1,366	8,401

Book value approximates to fair value.

2020	Other financial liabilities at amortised cost in the balance sheet £'000	Other liabilities not within scope of IFRS 9 £'000	Balance sheet total £'000
Trade and other payables	2,465	—	2,465
Contract liabilities – short-term element	—	565	565
Contract liabilities – long-term element	—	364	364
Borrowings – short-term element	104	—	104
Borrowings – long-term element	3,458	—	3,458
Lease liability – short-term element	—	122	122
Lease liability – long-term element	—	61	61
	6,027	1,112	7,139

Book value approximates to fair value.

Notes to the consolidated financial statements (continued)

25.5 Risk management analysis (continued)

The remaining contractual maturity of the Group's financial instrument liabilities, being the undiscounted cash flows, including interest, based on the earliest dates on which the liabilities are required to be paid, are as follows:

2021	0 to 60 days £'000	61 days to 6 months £'000	6 to 12 months £'000	12 months to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total £'000
Trade payables	1,250	758	—	—	—	—	2,008
Borrowings	158	6	8	—	6,168	—	6,340
Lease liabilities	17	35	49	10	—	—	111
	1,425	799	57	10	6,168	—	8,459

2020	0 to 60 days £'000	61 days to 6 months £'000	6 to 12 months £'000	12 months to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total £'000
Trade payables	613	775	—	—	—	—	1,388
Borrowings	—	—	104	11	6,168	—	6,283
Lease liabilities	25	46	51	58	3	—	183
	638	821	155	69	6,171	—	7,854

26. Post Balance Sheet events

On 19 October 2021, the Company acquired IDE Group Connect Limited ("Connect") and Nimoveri Limited ("Nimoveri") (together, the "Acquisitions") from IDE Group Holdings PLC ("IDE") for a deferred consideration of £250,000.

The Acquisitions provided the Group with circa 660 additional clients and a significant opportunity to upsell and cross sell services across the Group. The Acquisitions were acquired from IDE on a normalised net cash basis for a consideration of £250,000, funded via a loan note from IDE for £250,000 to be repaid over five years with an annual interest rate of Bank of England base rate +3% with no payments due in the first six months. The book value of net assets acquired under the transaction equate to £250,000, including a cash balance of £400,000. The assessment of fair value including the intangible asset values relating to the acquisition have yet to be calculated and will included with the interim results to March 2022.

IDE agreed to provide the Group with a working capital facility of up to £500,000 on request, should it be required to help fund the initial restructure of the Connect business. Amounts drawn would be convertible into new ordinary shares in the Group at 1 pence per share, if not repaid in full by 19 October 2022. As at 6 March 2022, none of the working capital facility has been drawn down.

The consideration terms reflected the financial state of the Connect business at the date of the acquisition, the limited-scope warranties offered by IDE and the small number of unprofitable contracts contained within the business. Since acquisition, the Group's management team have implemented a number of steps to help improve the profitability of the Connect business.

The acquisition of Connect and Nimoveri was a related party transaction pursuant to rule 13 of the AIM Rules for Companies, due to MXC Guernsey Limited owning 10.6%. of the Company's issued share capital and 34.8% of IDE's issued share capital.

The Directors of the Company (save for Jill Collighan who was not deemed independent for this purpose) having consulted with the Company's Nominated Adviser, agreed that the terms of the transaction were fair and reasonable insofar as the Company's shareholders were concerned.

27. Ultimate controlling party

There is no ultimate controlling party.

Statement of financial position (parent company)

as at 30 September 2021

	Note	**30 September 2021 £'000**	30 September 2020 £'000
Fixed assets			
Fixed asset investments	6	**195**	1
Total fixed assets		**195**	1
Current assets			
Debtors	7	**10,277**	10,056
Cash at bank and in hand		**527**	11
Total current assets		**10,804**	10,067
Creditors: amounts falling due within one year	8	**(733)**	(694)
Net current assets		**10,071**	9,373
Total assets less current liabilities		**10,266**	9,374
Creditors: amounts falling due in more than one year	9	**(3,944)**	(3,458)
Net assets		**6,322**	5,916
Capital and reserves			
Called up share capital	11	**7,062**	4,952
Share premium account	11	**17,630**	17,630
Capital redemption reserve		**6,489**	6,489
Merger reserve		**1,997**	1,997
Other reserve		**339**	122
Retained earnings		**(27,195)**	(25,274)
Shareholders' funds		**6,322**	5,916

The parent company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in the financial statements. The parent company's loss for the year and included in the Retained earnings movement was £1,921,000 (2020: £2,548,000).

Approved by the Board and authorised for issue on 6 March 2022.

Darron Giddens

Director

The accompanying accounting policies and notes form part of these financial statements.

Company number: 05259846

Statement of changes in equity (parent company)

for the year ended 30 September 2021

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2019	**2,271**	**11,337**	**6,489**	**1,997**	**1,720**	**(24,116)**	**(302)**
Loss and total comprehensive loss for the period	—	—	—	—	—	(2,548)	(2,548)
Transactions with owners in their capacity as owners							
Extinguishment of BGF Loan Notes in consideration for issue of 50,000,000 shares at 0.35p per share (note 10)	500	1,275	—	—	(1,330)	1,148	1,593
Issue of 218,160,586 shares to CloudCoCo vendors at 3.3p per share (note 22 to the consolidated statements)	2,181	5,018	—	—	—	—	7,199
Cancellation of 11,353,255 share warrants held by MXC Guernsey on acquisition of CloudCoCo Ltd	—	—	—	—	(242)	242	—
Share-based payments	—	—	—	—	(26)	—	(26)
Total transactions with owners	2,681	6,293	—	—	(1,598)	1,390	8,766
Total movements	2,681	6,293	—	—	(1,598)	(1,158)	6,218
Equity at 30 September 2020	**4,952**	**17,630**	**6,489**	**1,997**	**122**	**(25,274)**	**5,916**

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2020	**4,952**	**17,630**	**6,489**	**1,997**	**122**	**(25,274)**	**5,916**
Loss and total comprehensive loss for the period	—	—	—	—	—	(1,921)	(1,921)
Transactions with owners in their capacity as owners							
Issue of 210,990,000 shares at 1p per share via a Placing (see note 11)	2,110	—	—	—	—	—	2,110
Share-based payments	—	—	—	—	217	—	217
Total transactions with owners	2,110	—	—	—	217	—	2,327
Total movements	2,110	—	—	—	217	(1,921)	406
Equity at 30 September 2021	**7,062**	**17,630**	**6,489**	**1,997**	**339**	**(27,195)**	**6,322**

The accompanying accounting policies and notes on pages 59 to 64 form an integral part of these financial statements.

Notes to the parent company financial statements

1. Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention basis.

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – The Financial Reporting Standard Applicable in the United Kingdom and Republic of Ireland (FRS 102), and with the Companies Act 2006.

Going concern

The Group had positive net assets at 30 September 2021 totalling £5.5 million (2020: £5.0 million). The Group's progress towards its key objectives of increasing sales, reducing customer churn, reducing costs, and returning to net cash generation is described in the Strategic Report. Despite continued uncertainty and disruption as a result of the pandemic, the Group reported an improvement in underlying profitability as measured by Group Trading EBITDA (2021: £0.7m; 2020: £0.3m).

In addition, the Placing of 210,990,000 shares at 1p each in September 2021 and the subsequent acquisition of two profitable and cash generative businesses in Systems Assurance Limited and More Computers Limited during FY21, provides the business with a solid platform for growth in 2022.

The Strategic Report on pages 10 to 12 describes the risks associated with the Group's activities which are reviewed by the Directors on a regular basis. The key operational risk the Group faces is the general economic outlook including the continuing uncertainty caused by the pandemic. Although COVID-19 has not a material impact on the Group's ability to operate, we continue to experience delays in sales cycles for certain services and project delivery as customers navigate the changing impact of COVID-19 on their own businesses. In 2020, the Group responded by taking action to conserve cash including temporary pay cuts, use of the Government's furlough and VAT deferral schemes and a COVID-19 Bounce Back Loan.

The Directors have reviewed the forecast sales growth, budgets and cash projections for the period to March 2023. The Directors have performed sensitivity analysis which reflects uncertainty in assumptions regarding growth in services and customer projects and considered that the Group expects to have sufficient cash resources to operate.

After reviewing the forecast sales growth, budgets and cash projections, including sensitivity analysis on the key assumptions such as the potential impact of COVID-19 on sales, for the next twelve months and beyond, the Directors have reasonable expectations that the Group and the Company have adequate resources to continue operations for the foreseeable future, being a period of at least one year from the date of approval of these financial statements. The Directors have not identified any material uncertainties that may cast doubt over the ability of the Group and Company to continue as a going concern and the Directors continue to adopt the going concern basis in preparing these financial statements.

1.2 Compliance with accounting standards

The parent company has taken advantage of the reduced disclosure framework and has the following exemptions available to it:

- the exemption from preparing a statement of cash flows;
- the exemption from providing a reconciliation on the number of shares outstanding; and
- the exemption from disclosing key management personnel compensation.

1.3 Investments

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

1.4 Pensions

The Company does not currently offer a pension scheme for the benefit of its employees, although the Executive Directors participate in a pension scheme operated by CloudCoCo Limited, where their payroll costs are prepared before an element is recharged back to the Company.

1.5 Share-based remuneration

The Company issues equity-settled share-based payments to certain employees. The fair value of the shares granted is borne by the Company and is not recharged to the Company's subsidiaries. Share-based payments are calculated at the grant date, based on an estimate of the shares that will ultimately vest, using the Black Scholes model and in accordance with FRS 102.

Notes to the parent company financial statements (continued)

1.6 Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements around the allocation of fair values are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Judgement was applied in the previous year to determine the substance of the agreements with the BGF relating to the cancellation of loan notes and the modification and exercise of share options. As described in note 19, the Directors concluded that the exercise of options was in consideration for the extinguishment of the loan notes as though the loan note instrument had been a convertible instrument. As a result, the transaction resulted in a no gain or loss being recognised in the income statement which would otherwise have been the case had the agreements been judged to be unrelated.

Key sources of estimation uncertainty

Where there is indication of impairment, the debtors balance is impaired by a charge to the Company's Income Statement. The debtors' balance of £10.2 million is recorded in the Company's Balance Sheet and relates to the amounts owed by subsidiary undertakings after impairment. At the end of each period, the minimum level of impairment provided is calculated such that the net assets of the Company are equal to the net assets of the Group net of any Deferred Tax. In addition, a full line-by-line review of the debtors is carried out for any further impairment. Whilst every attempt is made to ensure that the impairment provision is as accurate as possible, there remains a risk that the provisions do not match the level of debts which ultimately prove to be uncollectable.

1.7 Financial assets

Financial assets comprise amounts due from subsidiary undertakings and are initially recognised at fair value, plus transaction costs and subsequently measured at amortised cost in accordance with Paragraph 11 of FRS 102. At the end of each reporting period, the Company assesses whether there is objective evidence of impairment. If there is objective evidence of impairment, the Company recognises an impairment loss in profit or loss immediately.

1.8 Financial liabilities

Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Group becomes a party to the contractual provisions of the instrument. Loan notes are raised for support of long-term funding of the Group's operations. The financial liability arising on the loan notes is carried at amortised cost. In the financial statements at 30 September 2020, loan notes were treated as a compound instrument as if the options granted to the lender represented an option to convert loan notes into equity.

Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the Company Income Statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Modification of the terms of a liability is accounted for as an extinguishment of the original liability and recognition of a new liability when the modification is substantial. A modification is deemed to be substantial if the net present value of the cash flows under the modified terms, including any fees paid or received, is at least 10 per cent different from the net present value of the remaining cash flows of the liability prior to the modification, both discounted at the original effective interest rate of the liability prior to the modification.

2. Auditor remuneration

Fees payable to the Company's Auditor for the audit of the parent company's annual accounts were £20,000 (2020: £20,000).

3. Employee costs

The average number of staff employed by the Company during the year was 5 (2020: 5). These were all Directors. The costs for the year were £272,000 (2020: £294,000). Further detail is provided in note 7 to the consolidated financial statements.

4. Pension payments

The Company made pension payments of £2,000 during the year (2020: £5,000). Further detail is provided in note 7 to the consolidated financial statements.

5.Share-based payments

The Company has share option plans for employees and there were movements in non-employee share options and warrants during the year. Further detail is provided in note 7 to the consolidated financial statements.

Notes to the parent company financial statements (continued)

6. Fixed asset investments

	£'000
At 1 October 2020	1
Additions	194
At 30 September 2021	195

Additions relate to the cost of share options awards to employees of the subsidiaries.

At 30 September 2021 the Company had one subsidiary undertaking.

Company	Country of registration or incorporation	Class of shares held	%
Subsidiary undertakings			
CloudCoCo Holdings Limited	Scotland	Ordinary	100

The aggregate amount of capital and reserves and the results of the subsidiary undertakings for the last relevant financial year was:

Company	Principal activity	Net liabilities £'000	Profit for the year £'000
CloudCoCo Holdings Limited	Intermediate holding company	(11,030)	4

At 30 September 2021, the Company had the following subsidiaries:

Active companies

Subsidiary company	Holding	Country of incorporation	Shares	Nature of business
CloudCoCo Holdings Limited	100%	Scotland	Ordinary	Holding company
CloudCoCo Limited	100%	England and Wales	Ordinary	IT Managed Services
Systems Assurance Limited	100%	England and Wales	Ordinary	IT Managed Services
More Computers Limited	100%	England and Wales	Ordinary	IT Hardware e-commerce

On 6 September 2021, CloudCoCo Holdings Limited acquired 100% share capital of Systems Assurance Limited and More Computers Limited for a net cash consideration of £0.83 million in cash, before cash-free / debt-free payments due to the vendors and associated expenses. Details are shown in Note 22 of the consolidated financial statements.

Dormant companies

Subsidiary company	Holding	Country of incorporation	Shares	Nature of business
Pinnacle CDT Limited	100%	England and Wales	Ordinary	Dormant
CloudCoCo Managed IT Limited	100%	England and Wales	Ordinary	Dormant
CloudCoCo Cloud Services Limited	100%	England and Wales	Ordinary	Dormant
Ancar-B Technologies Limited	100%	England and Wales	Ordinary	Dormant

Notes to the parent company financial statements (continued)

For the year ending 30 September 2021 the following subsidiaries of the Company were entitled to exemption from audit under s479A of the Companies Act 2006. The Company having issued a parent guarantee to each of the subsidiaries below:

Subsidiary Name	Companies House Registration Number
Pinnacle CDT Limited	04613699
CloudCoCo Managed IT Limited	06056115
Systems Assurance Limited	02691103
More Computers Limited	04666684
Ancar-B Technologies Ltd	03347248

The registered office of all of the above companies apart from CloudCoCo Holdings Limited is 7750 Daresbury Business Park, Warrington, WA4 4BS. The registered office of CloudCoCo Holdings Limited is 12/13 St Andrew Square, Edinburgh, EH2 2AF.

7. Debtors

	2021 £'000	2020 £'000
Amounts owed by subsidiary undertakings	**10,158**	9,989
Prepayments	**63**	32
Other taxes and social security costs	**56**	35
	10,277	10,056

The charge in the period for impairment of amounts owed by subsidiary undertakings was £0.5m, (FY20: £1.4m). The amounts owed by subsidiaries are unsecured, interest free and are repayable on demand.

8. Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
Trade creditors	**529**	442
COVID-19 Bounce back loan repayable – short-term element	**11**	4
MXC Guernsey Limited working capital facility	—	100
Accruals	**193**	148
	733	694

Further detail on the COVID-19 Bounce back loan is provided in note 17 of the consolidated financial statements.

9. Creditors: amounts falling due in more than one year

	2021 £'000	2020 £'000
Loan notes	**3,909**	3,412
COVID-19 Bounce back loan repayable – long-term element	**35**	46
	3,944	3,458

Further detail on the COVID-19 Bounce back loan is provided in note 17 of the consolidated financial statements.

10. Financial instrument

The Company has loan notes in issue and further detail is provided in note 19 of the consolidated financial statements.

11 Share capital and reserves

Share capital and reserves comprises the following:

- "Share capital" represents the nominal value of equity shares;
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares; net of expenses of the share issue;
- "Capital redemption reserve" represents the nominal value of cancelled Deferred Shares;
- "Merger reserve" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, in connection with acquisitions;
- "Other reserve" represents equity-settled share-based employee remuneration until such share options are exercised.
- Retained earnings reserve" represents retained profits and accumulated losses.

Notes to the parent company financial statements (continued)

11.1 Placing

On 2 September 2021, the Company raised £2.1 million before expenses through a conditional Placing arranged by Allenby Capital of 210,990,000 new Ordinary Shares at a price of 1 penny per share to fund growth by acquisition and provide additional working capital to fund the subsequent integration. The Placing was carried out at an approximate 13 per cent. discount to the Company's closing price of 1.15p per share on Monday 16 August 2021. Costs relating to the Placing were £171,000 and were expensed in the income statement during the year.

11.2 Share capital

Shares issued and fully paid

	2021 £'000	2020 £'000
Beginning of year	**4,952**	2,271
Issued of 210,990,000 shares at 1p per share via a Placing (see note 11.1)	**2,110**	—
Issued during year on exercise of share options and extinguishment of £1.5m loan notes	—	500
Issued during year to CloudCoCo Limited vendors	—	2,181
Shares issued and fully paid	**7,062**	4,952

The shares issued to the CloudCoCo Limited vendors were issued on behalf of CloudCoCo Holdings Limited in settlement of the consideration payable for the purchase of the entire issued share capital of CloudCoCo Limited.

Share capital allotted, called up and fully paid

	2021 No. Ordinary Shares	2020 No. Ordinary Shares
Beginning of year	**495,225,986**	495,225,986
Issued of 210,990,000 shares at 1p per share via a Placing (see note 11.1)	**210,990,000**	—
End of year	**706,215,986**	495,225,986

11.3 Share premium

	2021 £'000	2020 £'000
Beginning of year	**17,630**	11,337
Arising on extinguishment of BGF Loan Notes in consideration of 50,000,000 shares at 0.35p per share	**—**	1,275
Arising on issue of shares to CloudCoCo Limited vendors at 3.3p	**—**	5,018
End of year	**17,630**	17,630

11.4 Capital redemption reserve

At the Company's Annual General Meeting on 27 March 2015, the Company was authorised to enter into a contract for the off-market purchase of all of the Deferred Shares of £0.009 each in its capital for cancellation. A single new Ordinary Share of £0.01 was issued by the Company on that date to finance the off-market purchase. In accordance with Section 733 of the Companies Act 2006, this cancellation of shares created a capital redemption reserve. Article 3 of the Companies (Reduction of Share Capital) Order 2008 (SI 2008/1915) allows such reduction to be treated as a realised profit and it therefore may be used to distribute to shareholders or used to buy back shares.

11.5 Merger reserve

The merger reserve represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue, in connection with acquisitions.

11.6 Other reserve

The Other reserve relates to share-based employee remuneration to be settled in equity. Further detail is provided in note 21 of the consolidated financial statements.

12. Related party transactions

There were related party transactions during the year. Further detail is provided in note 23 of the consolidated financial statements.

13. Contingent liabilities

There are no contingent liabilities at 30 September 2021 (2020: nil).

14. Post Balance Sheet events

On 19 October 2021, the Company acquired IDE Group Connect Limited ("Connect") and Nimoveri Limited ("Nimoveri") (together, the "Acquisitions") from IDE Group Holdings PLC ("IDE") for a deferred consideration of £250,000.

The Acquisitions provided the Group with circa 660 additional clients and a significant opportunity to upsell and cross sell services across the Group. The Acquisitions were acquired from IDE on a normalised net cash basis for a consideration of £250,000, funded via a loan note from IDE for £250,000 to be repaid over five years with an annual interest rate of Bank of England base rate +3% with no payments due in the first six months. The book value of net assets acquired under the transaction equate to £250,000, including a cash balance of £400,000.

IDE agreed to provide the Group with a working capital facility of up to £500,000 on request, should it be required to help fund the initial restructure of the Connect business. Amounts drawn would be convertible into new ordinary shares in the Group at 1 pence per share, if not repaid in full by 19 October 2022. As at 6 March 2022, none of the working capital facility has been drawn down.

The consideration terms reflected the financial state of the Connect business at the date of the acquisition, the limited-scope warranties offered by IDE and the small number of unprofitable contracts contained within the business. The Group's management team have implemented a number of steps to help improve the profitability of the Connect business.

The acquisition of IDE Group Connect and Nimoveri was a related party transaction pursuant to rule 13 of the AIM Rules for Companies, due to MXC Guernsey Limited owning 10.6%. of the Company's issued share capital and 34.8% of IDE's issued share capital.

The Directors of the Company (save for Jill Collighan who was not deemed independent for this purpose) having consulted with the Company's Nominated Adviser, agreed that the terms of the transaction were fair and reasonable insofar as the Company's shareholders were concerned.

Directors, Secretary and advisers

Directors

Simon Duckworth OBE DL
Non-Executive Chairman

Jill Collighan
Non-Executive Director

Andy Mills
Non-Executive Director

Mark Halpin
Chief Executive Officer

Darron Giddens
Chief Financial Officer

Company Secretary

Darron Giddens

Company number

05259846

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