ANNUAL REPORT & ACCOUNTS

2021

GRAFENIA plc

Contents

In summary

Grafenia are the people behind the Nettl network of neighbourhood studios, Image Group and the printing.com brand. We licence our brands and systems in the UK and internationally. At our production hub, we manufacture print, display and signage products. We sell those to businesses of all sizes via our brand partner networks and company-owned Nettl stores.

We buy, build and licence.

Continuing operations

	Year ended 31 March 2021	*Year ended 31 March 2020*
	£000	*£000*
Subscription and Licence Fees	**2,077**	2,083
Company Stores	**1,832**	2,806
Works Sign Businesses	**2,804**	4,624
Brand Partner Print	**1,916**	3,414
Online and Trade	**1,119**	2,677
Revenue	**9,748**	15,604
Gross Profit	**5,575**	7,977
EBITDA	**(160)**	(1,289)
Amortisation and Depreciation	**(1,705)**	(2,025)
Operating Loss	**(1,865)**	(3,314)
Net Finance Expense	**(461)**	(317)
Tax Income	**241**	258
Loss for the Year	**(2,085)**	(3,373)
EPS – Continuing Operations	**(1.83)p**	(3.27)p
Total Dividend per Share	**Nil**	Nil
Development expenditure	**£0.68m**	£0.67m
Net debt	**£(4.34)m**	£(3.28)m

Welcoming customers back into our stores

Chairman's Statement

I'd like to start this year's Chairman's Statement by thanking everyone at Grafenia for their hard work during the year. During several lock-downs and re-openings we brought Covid-19 protection equipment to market quickly, helped small businesses build their on-line presence and engaged in our communities. It was a challenging year but we are emerging as a more focussed and competitive business. Thank you to everyone who helped achieve this.

On to our scorecard of the 2020/21 fiscal year:

Operational Performance

In the recent fiscal year, our turnover decreased by 37.5% to **£9.75m** *(2020: £15.60m)* and gross profit decreased by 30.1% to **£5.58m** *(2020: £7.98m)*. However, the gross profit margin has increased from 51.1% to **57.2%** thanks to cost management efforts and a shift in product mix toward the more profitable licence and subscription fees. The year showed a reduction in EBITDA loss, which is earnings before interest, tax, depreciation and amortisation, to **£0.16m** *(2020: loss £1.29m)*. Our loss for the year came in at **£2.09m** versus *£3.37m* last year. We finished the year with a cash position of **£2.74m** *(2020: £1.10m)* and net debt (including deferred consideration and lease liabilities arising due to IFRS 16) of **£4.34m** *(2020: £3.28m)*. We invested **£0.18m** on capex *(2020: £0.43m)*, and capitalised **£0.68m** in development expenditure *(2020: £0.67m)*.

Importantly, these results include several cost items that are either one-time in nature, or constitute up-front costs, rather than ongoing operating costs. Such costs went down in the fiscal year in comparison to the prior year.

Some firms back-out many costs from their profit and loss statement to arrive at some 'adjusted' figure. I find that a slippery slope. It opens the door to mark every cost as 'extraordinary' or 'non-recurring'. Such accounting doesn't help with internal cost discipline. Communicating what ends up being a 'profit before cost' doesn't help external readers either.

It would be an easy way out to disregard the Covid-19 impact on our business as extraordinary and to not analyse last year's figures in much detail. Clearly, the pandemic was an extraordinary event and skewed everything – right?

I beg to disagree and find a few aspects in our financial performance absolutely noteworthy and insightful:

Firstly, we managed to significantly reduce our losses, although our sales contracted substantially. In particular, the largest driver has been an intense focus on reducing operating cost in the business, making processes more efficient and reducing team sizes. When we model out our cost base from last year it gives us confidence that, with modest increases in revenue, profitability will continue to improve. That should bring us closer to reaching the mid-term objective of 10-15% EBITDA we believe this business can achieve in future years, once activity fully recovers post-Covid.

Secondly, our subscription and licence fees have proven to be incredibly resilient and stable. Most of our subscriptions and licence agreements are billed monthly and provide an essential and "infrastructure-like" service to partners and end-clients. In particular, the pandemic has shown why it makes great sense to be a Nettl partner. Nettl partners benefit from our community, our agile tools, access to new product categories like protective equipment and our inspiration for selling tactics add real value – in particular during times of crisis. Increasingly, I believe that the major sources of value in our business are the products we sell on a recurring and "software-like" basis. The great resilience of that part of the business motivates our increased focus on building the business around software. A fantastic example is our "Works Makers" initiative, allowing third party suppliers to easily list and sell their products within our platform. We once believed that we had to make most products ourselves. In fact, we spent a lot of time evaluating the roadmap to a UK-wide sign hub network. While we still – *strongly* – believe signage is a very complementary product category for our partners, Covid-19 has shown that we are much better at opening up to third party suppliers than we previously thought. That every partner can now sell signage to their clients doesn't necessarily mean that we have to be the largest sign maker ourselves.

People at Grafenia & Priorities in the last year

Our average number of employees went down to 159 in the year from 203 in the prior year. We are a leaner organisation now - but parting with long-term team members is never easy. Nevertheless, our actions were necessary to make it through the pandemic and I'd like to thank every manager at Grafenia for your empathy and patience in driving change. The Board is fully aware of the effects our decisions had on families and communities. On behalf of the Board, I would like to sincerely thank every team member of Grafenia – current and former – for their contributions. Last year wasn't easy. But as Peter says: "choose your hard" – and Grafenia decided to pick the road of getting leaner and more agile to emerge from Covid as a better company.

In past Chairman's statements, I wrote that there were three areas where my fellow non-executive directors and I can impact the Grafenia organisation. Firstly, get governance right. Secondly, set the right incentives. Thirdly, make rational capital allocation decisions.

We were rather quiet on the capital allocation and M&A front in the last fiscal year. With the exception of adding two smaller (but very nice indeed!) sign firms, we didn't find valuations particularly attractive. Certainly, we expected to see more opportunities during the crisis. It is not that we haven't looked at any deals – we couldn't get close enough in terms of valuation or business quality or culture (or all of the above!)

As discussed earlier, we have grown increasingly sceptical as to whether adding manufacturing capacity is the right strategic choice. We can offer our partners all kinds of capabilities by leveraging our software and systems. We are currently evaluating our way forward but opening up our system to dozens of signage firms seems like a really interesting option, whereas buying dozens of signage firms may be less promising than we originally thought.

In the end, we believe Nettl will be the leading neighbourhood design studio. That requires offering breadth of products and great capabilities. I strongly view adding signage to the offering as the right strategic choice and we clearly benefited from that last year. Nonetheless, we set out to make the group substantially larger by acquiring signage firms in a financially accretive way. The latter hasn't materialised which drove us to reconsider our strategy.

Outlook and Current Priorities

We provided a strategy update on 16 April 2021 and set out how we will think about, and report on, the business going forward. We will provide a more comprehensive update in due course but felt it was the right thing to share our thinking early.

Most importantly, we now think about the business in two groups: Works Manchester and Nettl Systems. Very broadly, that splits the business into "everything production" and "everything software and licence".

The core reason we've made that change in reporting is to create visibility and transparency on where revenue is earned and costs are incurred. Historically, Grafenia has been very much integrated. The problem with that has been that certain parts of the business (mainly in production) have been essentially cost centres helping customer facing parts (like Nettl) do business. There are clearly virtues in integrating functions but what gets lost is accountability and profit focus for each part of the value chain. For example, we have in the past declined production work because it had nothing to do with our partner business and strategy. If you thought about Works Manchester as a stand-alone profit centre within a larger group, additional production work might be quite welcome indeed, regardless of whether it has anything to do with other business of the group!

Expanding our offering with items made by third-party Works Makers

Once more, that change in perspective was motivated by our experiences during the pandemic. Our systems proved capable of opening up and adding third party supply in ways we'd not explored before. That traction inspired the insight to think about the business in a less integrated fashion.

We strongly believe that additional transparency will empower both groups and release entrepreneurial energy in our teams.

In the strategy update we also announced we'll look for complementary software acquisitions that help us broaden our offering in Nettl Systems. Today, we are already the operating system for several hundred design studios across the world and are keen to keep adding to our systems and capabilities.

We will keep you updated how our thinking evolves and how we develop both businesses going forward.

Last year we held a closed meeting. This year's AGM will be an 'in person' meeting. However, we can't be certain that travel will be allowed, so we strongly discourage any shareholders from seeking to attend the AGM in person this year. Please submit your votes by way of proxy. We received good feedback on our virtual post AGM presentation last year and will repeat that format this year. We are quite keen to resume our usual 'in person' AGM again when it's practical: did anyone not miss the saxophone after all?

The AGM will take place at 10am on Wednesday 15 September 2021 and we'd be very happy to have you join our on-line presentation afterwards where we'll answer your questions.

Jan-Hendrik Mohr
Chairman
27 July 2021

We’ve added hundreds of new product categories this year, from niche print to promo items and packaging

STRATEGIC REPORT

Chief Executive's Statement

Dear Shareholders,

What for the love of

I mean, really. Another annual report and we're still banging on about some novel virus. Well, the novelty has well and truly worn off.

Our production hub and HQ is based in Manchester. Now, of course, Manchester is famous for doing things differently. Like being under local lockdown restrictions for longer than any other part of the country. It's taken its toll.

Early on in this letter, I'd like to commend our teams on your behalf. They've worked solidly throughout the pandemic. Adapting to relentless change. In times of anxiety, they've kept going. We've remained open the whole time. Maybe not 'there', but always there. It's not been easy and we recognise and appreciate the efforts of each and every team member. Thank you.

The canary in the coronamine

We're like a business barometer. A metronome of markets. A trade thermometer, taking the temperature from the throat of business sentiment.

We sell to clients of different shapes and sizes. From different sectors. In different parts of the country. Some are doing exceptionally well, despite the pandemic. And not just those in a Government minister's Whatsapp group. Others have kept going, pushing on. Reacting to an endlessly changing environment. Exhausted. And weary. And some poor souls still haven't been able to re-open. They're hurting.

It's been well over a year since events were banned. Exhibitions prohibited. Parties outlawed. Gatherings forbidden. Weddings cancelled. Stores shuttered.

That's our business. These are our clients, our friends, our families. We all know people affected. We're in hundreds of neighbourhoods and our relationships transcend transactions.

Our business relies on healthy business clients. When they're hurting, we hurt too. When doors reopen and punters return, we'll be there to help. As restrictions tightened, product sales slowed. As the taps of the economy turned on, orders flowed. Taps off, back to trickles.

But that's it. We're not going to use the c-word from here on in.

Build, buy and license

Our strategy is pretty simple. It's worth repeating. Those three words. We build performance in our company-owned Nettl locations. We buy businesses to extend our capability and resilience. And we license our know-how and systems to others. I'll go into more detail on each of the sections in turn.

Nettl company stores

We have five company-owned Nettl locations. In these stores, we sell to local businesses. The kind of things a business would want to promote themselves online and offline. That's websites, ecommerce shops, online booking systems, social media, SEO, printing, displays, exhibition and signage. We mostly sell to SME clients, who often don't have their own in-house marketing department.

Our stores are in Manchester, Birmingham, Exeter, Liverpool and Dublin.

Sales in our company stores were **£1.83m** *(2020: £2.81m)*. In this revenue segment, we count all invoiced sales to end clients of our company stores, whether they be print, display, design, websites or search engine optimisation. Essentially, everything we ring through the till in our own stores.

Except those tills stood silent for many months this past year. Lights remained off. Unwashed mugs recorded vacant days. But our studios worked remotely. Helping clients who were still trading, or preparing to re-open.

In the hazy warm days of summer 2020, we rolled a Nettl partner and small sign business into the Dublin store. That brought us sign installation capability in Ireland and we've serviced new and existing clients.

Buying businesses

We've talked about our acquisition strategy in our recent update on 16 April 2021. We made two small roll-in deals last year. While we're happy with how they integrated, they didn't really move the needle. Revenues are included in the Company Stores segment, but bear in mind that they were affected by the lockdown like the rest.

You'll recall we acquired Image Group back in 2017. That's in the revenue segment, "Works sign businesses". Sales were **£2.80m** *(2020: £4.62m)*. In the summer last year we were able to sell and produce floor graphics, protective screens and other pandemic paraphernalia. However, for the rest of the year, sales were impacted by the cancellation of events and exhibitions. Those make up the biggest part of Image Group's work and so that sucked.

As Jan mentioned in the Chairman's Statement, we spoke with a lot of other sign businesses last year. We just didn't find enough of the right deals at the right price. However, we learned a lot about the systems and processes these businesses were using. And it made us re-evaluate whether we could achieve our objective of national graphics installation, without buying more sign businesses. I'll come back to that.

We also discussed a change to our acquisition strategy. Take a look at **www.grafenia.com/acquisition** to see the full detail. We're refocusing our search on software businesses to complement the Nettl offering.

License our systems

The system we use in our company stores is called w3p Flyerlink.

If you're a long-time reader, you might recall we started public life as printing.com. We developed a system to connect the central production hub with our local studio 'spokes'. And then those studios with their clients.

In the olden days, when it was all just fields, we had one objective: to make sure the right design was printed on the right rectangle of paper, the right way up, packed into the right box, delivered to the right address, by the right date. Our software and systems made it more likely. Over the years, we improved and tweaked and licensed that software to third parties. To make their print businesses more efficient and iron out their creases.

Now think back to 2014. The Hunger Games was a movie, not a reality TV show. Pharrell Williams was Happy. One balmy autumn day we opened our first Nettl store.

We'd taken our software platform, geared for print. And we'd extended it to manage web projects too. Automating the little things that have to happen for every site launch. Hiding a load of complex stuff behind a little simple 'go live' button.

It meant that printers and folk with a graphic design skill-set could build and deploy websites. Nettl studios could do more for their clients, in less time, with the same people.

As people get more expensive, a few minutes trimmed here, a couple of hours saved there, soon start to matter. And now they matter a lot. The Nettl system helps a studio to scale, without having to recruit a load more people.

We sometimes describe Nettl as a tool-kit. A Swiss army knife of modules to write proposals, manage recurring payments, set up subscriptions and get wee stones out of horse's hooves.

New personalised electronic gifts to help clients stay front of mind

Now I'm going to ask you to think of a three-legged stool. And now your brain just said stool-kit and I can't help that.

As you're sat on your Nettl stool, look down at the legs. One of them is the systems. It's got software written on it. Another says training. And, without straining your neck, good, yes that last one says marketing.

We licence Nettl and our software to other folks. Sometimes under white label, sometimes in conjunction with a brand.

A little context, if you'll allow the meander.

The longer lockdown went on, the more people got used to online shopping. It takes twenty one repetitions for a habit to form. Twenty one times of repeating something, before it becomes instinctive. A lot of folk had been buying online, pre-pandemic. But the vast majority had not. Yet, the more days that 'normal' retail was closed, the more people tried online shopping for the first time. And they liked it. Oh boy, did they like it. You've seen the stats. Once behaviours have formed, there's no going back.

Now, of course, a lot of printers had transactional websites before the pandemic. But for many, their website was somewhere to put pictures of their presses and their plant list and.... oh sorry I nodded off were you saying something?

A better way to shop

As part of our platform, there's a core ecommerce shopping cart. That's the bit that shows products and pricing, with checkout and payment gateway. It powers Marqetspace, printing.com, nettl.com and hundreds of public and private web2print websites. We call it w3shop by Nettl.

There's lots of ways an entrepreneur could start selling online. But a lot of people underestimate just how much effort there is in merchandising a product range for sale. If all you do is sell Spanish brandy or strawberry shortcake vapes or oven chips, then sure, you could be set up in a few days. But to merchandise the range of signage, display, print and promo items that businesses want. Well that's going to take, like, forever. If we were at a BBQ and your cousin started talking about that as an idea for a startup, we'd have to stage an intervention. Friends don't let friends start down that path.

Instead, our w3shop-keepers get an instant product range. In their own brand, on their own domain. Sure, they can still set their own pricing, add other products and connect their bank account. But in a few days they can be selling. Not blowing on throbbing digits, weary from typing in prices. Monthly subscriptions start at £99 and up. We've added more than 25 new w3shop subscribers during the pandemic.

Selling online has turned from nice-to-have into must-have-to-survive.

It's a huge thing. But it's not the whole thing.

The other thing

For many, an online shop is a gateway to the digital world. Clients want to do more than just buy online. They've got their own agendas. Their own problems to solve. Things they're trying to do. Some, time-consuming. Some, technically challenging.

And so the Nettl system helps SME clients to do things online. Like add QR codes to menus, for speedy table service. Or make reservations. Or fill out quote requests. Or buy online. Or all the things you do every day. And the things you want to do, but tut when you can't and have to speak to someone.

One thing is certain. The thing that made a local print store successful a decade ago, is long gone. Those that can adapt, that can learn. They'll be the survivors.

Got a first class ticket to Zoom

When someone becomes a Nettl, it's a commitment to learning. As a time-poor business owner, doing these things is hard. Even for the tech-savvy, figuring out how to do something the first time is always a leap into the unknown. Learning is never complete.

By necessity we've moved all of our training online. Not going to lie, we always wanted to do that. Travel bans forced it. And it's never going back to the way it was. It's so much better to stick in your earpods and join a group from your desk, than join a queue at Euston and stick your armpit in a stranger's face. It makes refreshing knowledge easier. Courses can be shorter. And if someone gets lost in the trainer's blue steel, then they can always watch again on catch-up.

Front of mind

That third leg of the stool was marketing. Our partners use content and promotional material, such as e-shots, website landing pages, catalogues, brochures, direct mail, point-of-sale and product samples that we create. They use that to keep in touch with existing clients and attract new ones. It helps them sell print, websites and signs. We release beautifully crafted fresh content multiple times a month, to stay in clients' front-of-mind.

Partners pay us a subscription fee, depending on the size of their exclusive territory, ranging from £300 to £1,000 per month. To grant them geographical exclusivity, they pay an initial licence fee of around £2,000. Our standard licence agreement is three or five years, sometimes with an option to break at 18 or 24 months.

It's been a tough time for the print industry. Litho print has been hit in particular and hit hard. We've supported our partners through this. Not with mutual sobbing and singing songs around a fading camp-fire. But by relentlessly marching forward with new products. Working with them to bring new services to sell. And investing in our platform and new technology to improve their productivity.

We've come out of the pandemic with a similar number of Nettl partners than we went into it with. We lost some. Some new faces joined. A few after completing a scholarship. We cheer those that made the brave choice to change. And we salute the fallen.

As lockdown has eased, and people feel more confident about the future, we're seeing a shortening of the gestation period. For, becoming a Nettl is a commitment. Jan mentioned "Choose your hard" in his statement. That message is simple. Nothing is easy in life. There are no easy answers. Entrepreneurs can plough their own track. Or they can ride the rails, as part of a proven system. Both options are valid. But we ask, doesn't it make sense to take the path that leads to the greater chance of success? If you fancy a distraction, have a read **www.nettl.com/uk/chooseyourhard/**

Our Nettl partner network now stands at **232** locations around the world *(2020: 239)*. At the date of our last trading update, we had 174 active Nettl partners in the UK and Ireland, 20 in Benelux, 12 in France, 20 in the USA, 4 in New Zealand and 2 in Australia. We also currently have 46 printing.com locations *(2020: 59)*. Upgrading from printing.com to Nettl is a path well trodden and we anticipate further partners will diversify their businesses away from simply selling print.

Subscription and Licence Fees held firm at **£2.08m** *(2020: £2.08m)*. In this segment, we count initial licence fees, monthly subscriptions, website deployment royalties, the wholesale price of hosting, domain names, digital stock photography and search engine optimisation sold via our brand partners.

As well as licence fees, Nettl and printing.com partners are able to buy printing, exhibition kit, displays and signs from our Works Manchester hub. They pay a wholesale price and resell to end clients. With events mothballed and locations closed, it's not surprising that sales of product to Brand Partners was **£1.92m** *(2020: £3.41m)*.

Plans for plans

No, you're thinking of an eighties pop band. Over the past two years we've been building a whole new part of our platform. We call it "Plans". And it's the central component which allowed us to migrate from the software system which Image Group was using.

The first iteration of our platform was for print. The second, web and digital services. This new layer is to enhance the whole process of quoting and managing sign and display projects.

We're big believers in self-service. Sure, people like personal service and a helping hand from a human. Being able to complete a complex task yourself, whenever you like, is the key to eternal happiness. And it's at the heart of our continuous reinvention.

There are so many ways our clients can brand gifts and giveaways

With Plans, team members can build multi-part sign, display and print projects in a simple interface. Customising options and materials. As well as an instant price, a production route is automatically built. They'll add to a proposal, share online with the client and once the client has accepted, graphic files are checked and fixed automatically.

Great people are hard to find. We're grateful for the individual efforts our teams have made. And particularly where they are multiplied. Where the systems they've built enable hundreds of people to do tasks faster or even not at all.

We're rolling out Plans in stages, with upgrades available to our Nettl network in the autumn 2021.

Marqetspace.com and online channels

We sell print and signs to professional buyers through Marqetspace.com and a few other online channels. This space remains super-competitive. Marqetspace is important to us for a number of reasons. It's often where our relationships start. We get to know printers, graphic designers and sign companies with a simple trading relationship. Then we build trust. Then we figure out if any of our software tools or systems can help them achieve their own objectives. And so Marqetspace is a fertile ground for cultivating Nettl partners.

Of all our channels, Marqetspace typically had the biggest percentage of litho print to resellers. Unsurprisingly, it was hardest hit and sales were **£1.12m** *(2020: £2.68m)*.

Nettl of America

Since the US travel ban in February 2020 we haven't been able to set foot on American soil. We've had to adapt how we acquire, launch and support our American friends. It's gone more slowly than we would have liked, but we've continued to add new Nettl locations. It's now a common path to start as a Nettl System user, get to know the software, and then start the process of becoming a Nettl Franchise. We now have franchisees and partners in the states of Florida, Georgia, Ohio, New Jersey and Illinois.

Brexit

We mentioned in our most recent update that since leaving the customs union, we'd experienced disruption in shipping to mainland Europe. Things haven't improved. Consignments are routinely delayed and customs charges incorrectly applied. We're now making the significant majority of products sold in mainland Europe with Works Makers on the mainland. We don't see that volume returning to the UK any time soon.

For materials we import, we're constantly having to work around supply issues. Items which were previously available in a few days can be out of stock for weeks or months. That's a combination of Brexit, the pandemic and a boat having a snooze in the Suez.

We install signs and graphics nationwide

Outlook

We made significant steps reducing our overheads last year. Despite spending more of the second half of the year locked down than unlocked, we almost achieved EBITDA breakeven.

Our new financial year started in April. Trading has improved and the first quarter finished ahead of last year. July started well and should be our best month since September 2020. *The roads are busier.* With our new cost base, modest increases in revenue will improve profitability. And that gives us confidence of getting closer to reaching our mid-term objective of 10-15% EBITDA on a monthly run-rate during the current financial year.

But then. Will 2021 bring an alien invasion or solar flare or isn't there supposed to be an asteroid due about now or something?

See you for the presentation after the AGM*

Peter Gunning
Chief Executive
27 July 2021

*providing Godzilla doesn't go rogue again

Fully managed signage projects

STRATEGIC REPORT

Financial Review

Revenue

Group revenue this year finished at **£9.75m**, down from *£15.60m in 2020*, a 38% fall year-on-year. This reflects the significant impact caused by various degrees of lockdown put in place since March 2020. Sales of products have been most severely impacted, with exhibitions and events cancelled and demand for traditional print reduced with customers unable to open or operating at reduced capacity themselves.

As highlighted in our segmental disclosure (note 3) the sales of physical products have reduced across all channels. Our Company Stores saw a fall in revenue to **£1.83m** *(2020: £2.81m)* despite the addition of Eggshell Solutions Limited during the year, which contributed £0.11m since it was acquired in September 2020. Sales of print and other products through our Brand Partner Network fell to **£1.92m** *(2020: £3.41m)*, Online and Trade sales fell to **£1.12m** *(2020: £2.68m)* and Works Signs Businesses fell to **£2.80m** *(2020: £4.62m)*. Despite the overall fall, Licence Fee revenue has remained consistent year-on-year at **£2.08m** *(2020: £2.08m)* with further demand for our subscription services compensating for reduced licence fee income from our Partners, as they too felt the full impact of the pandemic. At **94%** *(2020: 95%)*, the majority of our business remains in the UK & Ireland.

Gross profit

Gross Profit, defined as revenue less direct materials (including the cost of distribution when made direct to customers) fell to **£5.58m** *(2020: £7.98m)*.

The improved gross margin percentage of **57.2%** *(2020: 51.1%)* reflects a shift in the proportion of our revenue to higher margin Licence and Subscription income. Margins continue to be pressed in traditional print and signage, with the pandemic and other global supply chain issues causing scarcity of materials and increased costs of shipping.

Other operating costs

Staff costs reduced by 35% to **£3.70m** *(2020: £5.69m)*. This has been achieved through a combination of permanent redundancies enacted in the prior year, £0.79m claimed during the year from the Coronavirus Job Retention Scheme and further permanent redundancy measures taken in September 2020. The average number of persons employed fell to **159** *(2020: 203)*, a reduction that would have been greater if not for the government support received.

Other operating charges have been reduced to **£2.04m** *(2020: £3.58m)* with non-essential spending curtailed and travel not possible. This includes restructuring costs totalling **£0.10m** *(2020: £0.20m)*.

Our bad debt charge has reduced to **£0.20m** in the year *(2020: £0.60m)* with improvements in internal credit control processes and a significant impairment in the prior year, when the impact of the pandemic on our customers first became apparent. We continue to work with our customers and Partners to come through the current difficulties together, however we have to accept that some of those debts may never be paid.

Profitability
As a combination of the factors discussed above, our pre-tax loss has reduced to **£2.33m** *(2020: £3.63m)* leading to a reduced loss per share of **1.83p** *(2020: 3.27p)*. Our earnings before interest, tax, depreciation and amortisation (EBITDA) loss reduced to **£0.16m** *(2020: £1.29m)*. The parent company result for the year was a loss of **£0.33m** *(2020: £3.11m)*. The prior year included an impairment charge of £2.95m on subsidiary investments which has not repeated.

Operating Cash Flow

This has led to the Group generating **£0.21m** of cash through operating activities *(2020: utilised £1.09m)*, reflecting the EBITDA in the respective years.

Investment activity

The current year has seen reduced investment in plant and equipment of **£0.18m** *(2020: £0.43m)*, following the completion of our factory merger in the prior year. We have also continued our investment in the Group's software platforms, totalling **£0.68m** *(2020: £0.67m)*, with continued enhancements and new features to the Groups SaaS platforms.

In September 2020, the Group acquired Eggshell Solutions Limited, net of cash received, for **£0.08m** and merged its operations with our Birmingham Store. This was followed with the purchase of the trade and assets of Sign Right, a small sign business in Dublin for **£0.03m** in November 2020.

Financing activity

On 15 July 2020 we announced the creation of a **£50.00m** perpetual bond facility and the issue of **£3.00m** of the bearer bonds, at nominal value, to investors, raising approximately **£2.01m** before expenses.

We also secured an additional term loan for **£1.00m** through the Coronavirus Business Interruption Loan Scheme (CBILS) and refinanced our primary hire purchase facility through CBILS, reducing our cash repayments for 12 months.

KPIs

Management monitors a number of KPIs, which underpin the performance of the business. The number of Nettl Network Partners has been broadly flat, as discussed by Peter earlier. The average product revenue per partner reduced, reflecting the impact of the pandemic. Website deployments and hosting fees per month have continued to increase, along with the number and value of SEO subscriptions.

Outlook

The future developments of the business are included in the Chairman's statement and Chief Executive's statement. The future trading environment remains uncertain. We can only guess the pace at which the economy at large, and by extension the printing and promotional world, will recover from the COVID-19 pandemic. We have factored the potential return of restrictions over the next winter period into our forecasting, however, with the restructuring activity undertaken in this financial year and existing cash reserves, we believe the financial future of the business is secure and we have the resources to execute our expansion plans. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

We wrap vehicles at our Nettl Superstores

Principal Risks and Uncertainties

The following are the principal risks relating to the Group's operations:

- uncertainty in the general economic environment that may impact upon revenues and profitability;
- markets in which the Group operates are extremely competitive posing a threat to profitability;
- technological advances in manufacturing and/or software may impact on operational effectiveness and earnings potential;
- the Group and its clients depend on the W3P SaaS platform and all reasonable operational contingency is embedded for resilience in the event of a catastrophe;
- the ability to retain and recruit key people, across a multitude of disciplines, is essential in maintaining and growing the business;
- Group SaaS platforms are developed in-house but use third party components, the necessary rights exist but there is no certainty that these rights will be retained indefinitely.

Treasury Policies

Surplus funds are intended to support the Group's short-term working capital requirements and fund future acquisitions. These funds are invested through the use of short-term deposits and the policy is to maximise returns as well as provide the flexibility required to fund ongoing operations. The Board has developed a model to establish a fair value for the Company's shares and will only purchase shares when the offer price is materially below that value and funds are available. It is not the Group's policy to enter into financial derivatives for speculative or trading purposes, see Note 22.

Iain Brown
Group Finance Director
27 July 2021

DIRECTORS

Jan Mohr
Chairman

Jan is based in Hamburg, Germany and is MD of the advisory firm JMX Capital GmbH. He previously worked with Investmentaktiengesellschaft fuer langfristige Investoren TGV, Hauck & Aufhaeuser and McKinsey & Company. Jan graduated from Frankfurt School of Finance and Management and earned a Master in Finance at Stockholm School of Economics as a German National Merit Scholar.

Jan was appointed to the Board in March 2016. Age 32.

Peter Gunning
Chief Executive

After obtaining his Masters Degree in Accountancy and Finance from Heriot-Watt University in 1997, Peter established The Design Foundry Scotland Limited and was a client of the business. Since joining the Group in 1998, he has been responsible for developing the Nettl and printing.com studio concepts, associated marketing and operations infrastructure.

Peter was appointed to the Board in June 2001. Age 46.

Iain Brown
Group Finance Director

After Graduating from Leeds University with a Bachelor of Arts degree in Accountancy and Finance in 2008, Iain joined audit practice with Baker Tilly UK LLP and subsequently qualified as a chartered accountant with the Institute of Chartered accountants in England and Wales. Prior to joining Grafenia, he has held a number of senior financial positions with Myriad Group AG, a publicly listed Swiss software business trading across the world from multiple locations, before ultimately being appointed as Group Financial Controller in 2016.

Iain joined the Group in October 2019 and was appointed Group Finance Director in January 2020. Age 34.

Gavin Cockerill
Chief Operating Officer

After graduating from Birmingham City University in 2000 and following a short stint in advertising, Gavin helped launch and grow the printing.com studio in Birmingham. Since joining the Group he has been involved in progressing the Nettl and printing.com business models across the UK and its numerous master licenses globally. Moving to Manchester in 2012 he launched and developed the group's TemplateCloud and Flyerzone offerings.

Gavin joined the Group in 2000 and was appointed COO in October 2015. Age 42.

Conrad Bona

Non-Executive Director

Conrad is a business consultant, investor and entrepreneur who started his career as a banking and finance lawyer and has worked in Toronto, London and Tokyo. He has a degree in economics from the University of Western Ontario, law degrees from the University of Edinburgh and the University of New Brunswick and qualified to practice as a lawyer in multiple jurisdictions. No longer practicing law, Conrad now advises companies on a wide range of commercial, financial and business matters. He has both Canadian and British citizenship and is based in London, England.

Conrad was appointed to the Board in October 2015. Age 52.

Richard Lightfoot

Company Secretary

Richard graduated from Manchester Metropolitan University in 1998 with a First Class honours degree in Business Studies. He subsequently worked for a Corporate Finance advisory firm assisting on mergers & acquisitions and venture capital fund raisings. Since joining the Group in 2004 he has performed a number of roles supporting the board in implementing strategic initiatives.

Richard was appointed Company Secretary in October 2015. Age 49.

Simon Barrell

Non-Executive Director

Simon qualified as a chartered accountant in 1983 and is a Fellow of the Institute of Chartered accountants in England and Wales. He's held various posts as Finance Director and has experience across multiple industries working in both the public and private sectors. He has also held numerous non-executive positions for a number of public companies and continues to act as an adviser to listed and non-listed companies. He is currently a non-executive director of SRT Marine Systems plc.

Simon joined the Group in June 2018 as Interim Finance Director and was appointed to the Board as a Non-Executive Director in January 2020. Age 62.

Directors' report

The Directors present their report and the financial statements of Grafenia plc and its subsidiary companies for the financial year ended 31 March 2021. The Directors have proposed that no final dividend will be paid *(2020: nil).*

PRINCIPAL ACTIVITIES

We generate revenue from two main sources: licensing brands and software, and manufacturing product. We license our brands, software and technology to partners in the UK and internationally. We also directly manufacture a range of printing, signage, promotional items and expo displays in the UK.

DIRECTORS

The following Directors have held office since 1 April 2020:

J-H Mohr	Non-executive Chairman
C C Bona	Non-executive Director
S G Barrell	Non-executive Director
P R Gunning	Chief Executive Officer
G G Cockerill	Chief Operating Officer
R A Lightfoot	Director and Company Secretary
I S Brown	Group Finance Director

All the Directors are subject to re-election at intervals of no more than 3 years.

R A Lightfoot, G G Cockerill and S G Barrell retire by rotation in accordance with the Company's Articles of Association and all being eligible, offer themselves up for re-election.

Details of Directors' interests in the share capital of the Company as shown in the register, together with details of share options granted and awards made to the Directors, are included in the Report on Directors' Remuneration on pages 41-42.

The Company maintains cover for its Directors under a directors' liability insurance policy, as permitted by the Companies Act 2006.

EMPLOYEES

The employment policies of the Group embody the principles of equal opportunity and the Group does not discriminate against anyone on any grounds. The Group ensures that every consideration is given to applications of employment from disabled persons. If an employee became disabled, every effort would be made to offer suitable alternative employment within the Group and assistance with retraining.

The Group keeps employees informed via its Intranet and by periodic staff meetings and internal announcements and takes account of any comments and feedback provided by employees in the formulation of its policies and procedures.

HEALTH AND SAFETY

Emphasis is placed upon providing a safe and healthy working environment for employees, customers and suppliers. The Group ensures that regular risk assessments are carried out and that plant and machinery is properly maintained. Working practices are continually refined to embody safe systems of work and the Group ensures that employees receive ongoing instruction, training and supervision for working and health and safety issues.

SOCIAL, ENVIRONMENTAL AND ETHICAL ISSUES

The Board considers social, environmental and ethical matters in all aspects of the business of the Group. They and senior management review and assess the significant risks to the Group's short and long term value as impacted upon by social, environmental and ethical issues. The Group complies with environmental laws and regulations and works with suppliers and customers to improve the effectiveness of environmental management. The Group has made no contribution to political parties during the year *(2020: nil).*

SUBSTANTIAL SHAREHOLDERS

In addition, to the Directors' interests noted in the Directors' Remuneration Report, the Directors are aware of the following who were interested in 3% or more of the Company's equity as at 31 March 2021:

Registered holding	Number of shares	% of issued share capital
Langfristige Investoren TGV	**33,434,909**	**29.20%**
Value Focus Beteiligungs GmbH	**30,224,866**	**26.40%**
Stefan Winterling	**7,279,074**	**6.36%**
Scherzer & Co SA	**5,675,500**	**4.96%**
IPConcept (Luxembourg) S.A.	**5,634,919**	**4.92%**
Axion SA	**4,985,000**	**4.35%**

GOING CONCERN

As part of the consideration of the appropriateness of adopting the going concern basis of accounting, the Directors have prepared a base case forecast and then applied reasonable sensitivities, covering the cash flow impact associated with a further year of COVID-19 disruption. The primary cash flow impact identified in the sensitivity analysis is a significant reduction in cash collections driven by lower customer demand. The Directors also considered the potential levers at their discretion to improve the cash position, including a number of further reductions in operating expenditure across the group, primarily related to workforce cost reductions. Having considered these scenarios, the Group continues to have sufficient cash headroom.

Based on the above the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and is well placed to manage its business risks successfully despite the continued uncertain economic outlook caused by COVID-19.

Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Wednesday 15 September 2021. Whilst this will be an 'in person' meeting given the continuing general uncertainty with travel and restrictions we strongly encourage members not to attend in person and to exercise their right to cast their vote by proxy. In addition to the ordinary business, the Company will also propose a number of resolutions, which will be dealt with as special business. Details are contained in the Notice of the Annual General Meeting.

In the opinion of the Directors, the passing of these resolutions is in the best interests of the shareholders.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor are unaware; and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's Auditor is aware of that information.

AUDITOR

RSM UK Audit LLP has indicated its willingness to continue in office and a resolution to reappoint it as Auditor will be proposed at the next Annual General Meeting.

Certain information, such as the fair review of the business and its performance, is not shown in the directors' report because it is shown in the strategic report instead under s414C(11).

By order of the Board

Iain Brown
Group Finance Director
27 July 2021

Statement of directors' responsibilities in respect of the annual report, strategic report, the directors' report and the financial statements

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

Company law requires the directors to prepare group and company financial statements for each financial year. The directors have elected under company law and the AIM Rules of the London Stock Exchange to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and to prepare the company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

The group and company 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 of the group and the company and the financial 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;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and 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 the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the 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 Grafenia Plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate governance statement

FOR THE YEAR ENDED 31 MARCH 2021

AIM-quoted companies have been required to apply a recognised corporate governance code since 28 September 2018 as a result of changes to AIM rules introduced on 30 March 2018. The Board has determined that the Quoted Companies Alliance's ("QCA") Corporate Governance Code for small and mid-size quoted companies (revised in April 2018 to meet the new requirements of AIM Rule 26) would be the most appropriate for the Group to adhere to. The information on Corporate Governance is set out below.

The QCA Code is constructed around ten broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. We have considered how we apply each principle to the extent that the Board judges these to be appropriate in the circumstances, and below we provide an explanation of the approach taken in relation to each. The Board considers that it does not depart from any of the principles of the QCA Code during the period under review.

The following paragraphs set out the Group's compliance with the ten principles of the QCA Code. Further details are available at www.grafenia.com.

1. ESTABLISH A STRATEGY AND BUSINESS MODEL WHICH PROMOTE LONG TERM VALUE FOR SHAREHOLDERS

Our vision was first shared with our shareholders at our 2017 AGM. It puts customers and brand partners at the centre of our focus in a relentless drive to exceed customer expectations, and is as follows:

"To be the world's leading network of web, design, sign and print studios. Known as the local place for business, where business happens. Where customer experience is our priority. Where we deliver compelling value and reliable service every time. So we are rooted in every team member's and partner's success."

Our strategy to achieve this is to build our network of studios, buy businesses to accelerate our growth, and license our intellectual property both in the UK and overseas.

Our strategy and business operations are set out more fully in the Strategic Report section of the Group's Annual Report. Further information in respect of our acquisition strategy can be found on our website and in our most recent Pre-close Trading and Strategy Update announcement.

The Group's principal risks and uncertainties and the systems and internal controls developed to mitigate them are set out in the disclosure to principle 4 of the code.

2. SEEK TO UNDERSTAND AND MEET SHAREHOLDER NEEDS AND EXPECTATIONS

The Company believes strongly in transparency and an open door policy towards shareholder communications. It aims to provide fair and objective reporting and seeks to ensure its strategy, business model and performance are clearly communicated and understood through its half year and full year reports. Past and present versions are published on the Company's website.

Given the stage of the Company's development its AGM provides the key opportunity for dialogue with shareholders. All members of the Board attend the AGM. A Notice of AGM is circulated to all shareholders on the register at least 21 days in advance of the AGM. Our AGM format was significantly overhauled in 2017 to be more inclusive, informative and fun, the growth in numbers of shareholders attending is testament to the success of this initiative. The post AGM presentation necessarily takes on a virtual format again this year.

The Chairman and Company Secretary go to additional lengths to identify and communicate with major shareholders whose holding is via nominee accounts and encourage voting and shareholder feedback and engagement.

The number of proxy votes received for each vote are announced at the AGM and the results of the AGM are announced and published on our website.

The Company does not presently have significant representation from traditional institutional investors. However, at an appropriate juncture it will seek to develop this area with the support of its broker Allenby Capital.

3. TAKE INTO ACCOUNT WIDER STAKEHOLDER AND SOCIAL RESPONSIBILITIES AND THEIR IMPLICATIONS FOR LONG-TERM SUCCESS

The Company actively seeks to engage with its wider stakeholder base in order to maximise decision making, ensure alignment of interests and balance the needs of all stakeholders, whilst meeting its primary responsibility to promote the success of the Company for the benefit of its members as a whole via the execution of its strategy and business model set in the disclosures to principle 1 of the code.

Employees

The Company regularly engages with its staff via a number of practices and procedures. Staff are able to give valued feedback on the working environment and other stakeholder insights through, for example:

- w3pin the Company's on-line message board and forum as well as third party applications such as business communication platform Slack. Use of such platforms has come into sharp focus since the onset of Covid-19 and increased homeworking;
- regular virtual meetings (in place of the Company's annual two day conference, which it has not been possible to hold during the pandemic) bringing together our customer facing operational senior management and team leaders.

The Company believes the best way to achieve alignment with its staff and encourage them to think and act like owners is to help them become owners. The Company established a "Save As You Earn" Scheme in 2017 which allows employees to save monthly and then purchase shares in the Company at a pre-agreed price.

The Company is an advocate of apprenticeships and goes beyond its legal obligations such as the payment of the apprentice levy in its commitment to this stakeholder group.

Customers and Suppliers

The Company invests in customer service software and infrastructure to support feedback from these stakeholder groups and monitors and measures internal targets for response times and quality.

Our vision is to be rooted in every team member's and partner's success. To that end the Company regularly engages with its partner network through events such as the Company's Grapalooza and other virtual events (held in in place of roadshows and conferences during the pandemic), w3pin and on-line polls and votes, the responses to some of which have shaped key strategic and operational decisions around important aspects of our business, ranging from pricing to environmental policies and considerations.

Environment

The Company is conscious of the environmental impact of the industry that it operates in. We seek to mitigate and minimise the Company's impact on the environment through practices and procedures including sourcing of sustainable paper supplies, supply and promotion of biodegradable products and adoption of technologies to reduce the Company's energy consumption. All of our matt and gloss laminated print for example is produced using a biodegradable film and more recycled options were added during the year. The Company also previously invested in voltage optimisation equipment.

The Company operates a comprehensive Environmental Management System (of which wider stakeholder feedback forms a part) setting out processes, procedures and controls and objectives and targets in respect of the Company's environmental footprint.

4. EMBED EFFECTIVE RISK MANAGEMENT, CONSIDERING BOTH OPPORTUNITIES AND THREATS, THROUGHOUT THE ORGANISATION

Principal risks and uncertainties faced by the Group are set out in the Group's Annual Report.

The Board is responsible for establishing and maintaining the Company's system of internal control, which is designed to meet the particular needs of the Company and mitigate the risks to which it is exposed. Such a system is designed to manage these risks, to provide reasonable, but not absolute, assurance against material misstatement or loss, and to maintain proper accounting records to ensure the integrity of the financial information used within the business and for external publication.

The Board reviews the effectiveness of the system of internal control and considers whether the Company's internal controls processes would be significantly enhanced by an internal audit function and has taken the view that at the Company's current stage of development, this is not required. The Board will continue to review this matter each year.

The Board considers that the internal controls in place are appropriate for its size and resources, its activities and the risk profile. The key elements of the control system in operation are:

- The Board meets regularly to consider matters reserved to it and has put in place an organisational structure with clear lines of defined responsibility and with appropriate delegation of authority to manage risk.
- Since the onset of Covid-19 the executive members of the Board have met on a weekly and, at key times, daily basis to consider the opportunities and threats facing the Company.
- The senior management team meets every Monday providing an opportunity to consider operational risks faced and provide stakeholder feedback from across the Group's operations.
- An organisational structure exists with defined roles and accountability and a culture is fostered which encourages entrepreneurial decision making while minimising risks. A key component of this is our Leadership Values book which sets out nineteen things we look for and measure our people on and ask them to hold their peers, colleagues and leaders to account over.
- GrafOS (hosted on w3p, the Platform that manages our entire organisation) provides mechanisms for peer-to-peer evaluation and continuous 360 degree feedback, it's essentially an early warning system for undesirable behaviour.
- w3pedia (also hosted on w3p) sets out the written operating procedures for all aspects of our business together with our staff handbook which contains policies providing guidance on things that could get our employees into trouble (including anti bribery, data protection, use of mobile phones whilst driving and much more).
- The Company has information systems for monitoring its financial performance against approved budgets and forecasts.
- Documented quality systems include comprehensive health and safety policies and procedures, reviewed and updated on an ongoing basis by the Company's Health & Safety Officer, which encompass all aspects of the Group's day-to-day operations. The Executive management team reports to the Board on any health and safety issues at every Board meeting.
- The Audit Committee receives reports from the external auditors on a regular basis and from executive directors of the Company. The Board receives periodic reports from all Committees.
- The Group retains an insurance broker and maintains appropriate insurance cover in respect of actions taken against Directors and in respect of materials loss or claims against the group and the risks it faces. The types of cover and insured values are reviewed annually.

5. MAINTAIN THE BOARD AS A WELL-FUNCTIONING, BALANCED TEAM LED BY THE CHAIR

The make-up of the Board is reviewed on an ongoing basis in light of the Company's development, requirements and resources.

The Board currently comprises three Non-Executive Directors (including the Chairman) and four Executive Directors.

All of the Directors are subject to election by shareholders at the first Annual General Meeting after their appointment and the article 32 of the Company's articles of association requires anyone who has been in office for three years without re appointment to seek re-election.

The Non-Executive Directors are considered by the Board to be independent under the QCA Code's guidance for determining such independence. All Non-Executives receive a fixed fee for their services and do not participate in any performance-related remuneration schemes, or have any interest in a company share option scheme (including the Company's Save As You Earn Scheme).

To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information. A rolling programme of Board meetings is maintained throughout the year together with adhoc meetings as the Company's requirements demand. The director's attendance records in the year under review (excluding directors who have ceased to be directors in the period), is as follows:

	Board meetings	Audit committee meetings	Remuneration Committee meetings
Number held	24	3	3
Jan-Hendrik Mohr (Chairman)	23	3	3
Conrad Bona (Non-Executive Director)	24	3	3
Simon Barrell (Non-Executive Director)	24	3	3
Peter Gunning (CEO)	24	-	-
Gavin Cockerill (COO)	24	-	-
Richard Lightfoot (Director & Company Secretary)	22	-	-
Iain Brown (Group Finance Director)	24	-	-

In the past, Board meetings and the Company's AGM have been held at various Group premises giving, in particular the Non-Executive Directors, access to different operations and the opportunity to develop a wide understanding of the Group's activities. Since the onset of Covid-19, Board meetings have necessarily been held remotely and, during the last year, on a significantly more frequent basis.

The Company Secretary reports directly to the Chairman on governance matters. The Board believes that Richard Lightfoot's appointment as Director and Company Secretary is appropriate at this stage of the Company's development and given its requirements and resources. This arrangement is assessed on an ongoing basis and separation of duties will be implemented as appropriate.

6. ENSURE THAT BETWEEN THEM THE DIRECTORS HAVE THE NECESSARY UP-TO-DATE EXPERIENCE, SKILLS AND CAPABILITIES

The Board considers that all of its directors are of sufficient competence and calibre and between them provide an appropriate and effective balance of skills and experience, including in the areas of retailing, wholesaling, marketing, print production, software development, ecommerce, finance and mergers and acquisitions. Directors' biographies are set out on the website.

The Directors all ensure that their skills are kept up to date by the attendance of courses, briefings from professional advisors and reading relevant industry and professional publications.

The Board is supported where necessary by its external professional advisers. The Board continually reviews the performance of third party advisers to ensure they are the most effective business partners for the Group. Our Auditors were last changed in July 2017. Directors have access to advice and services of the Company Secretary and there is a procedure for all Directors, in furtherance of their duties, to take independent professional advice, if necessary, at the expense of the Group.

Whilst the Board presently consists of one German national and one member with both Canadian and British citizenship we are mindful of the absence of ethnic diversity and gender balance. The Board is committed to continual assessment of its composition as the Company evolves.

The Company Secretary provides Directors with updates on key developments relating to the Company and legal and governance matters including advice from the Company's nomad, lawyers and other advisors.

7. EVALUATE BOARD PERFORMANCE BASED ON CLEAR AND RELEVANT OBJECTIVES, SEEKING CONTINUOUS IMPROVEMENT

The Chairman assesses the individual contributions of each of the members of the team to ensure that:

- they are performing their roles and carrying out their responsibilities to the highest standards;
- their contribution is relevant and effective;
- where relevant, they have maintained their independence.

Appraisals are carried out each year for all Executive Directors and to assess overall Board composition. The appraisal process is an ongoing consideration of the Board as a whole.

The Chairman Jan Hendrik Mohr conducts an annual review of the Board's effectiveness, in accordance with Principle 7 of our Corporate Governance Statement. The objective of this evaluation process is to bring to light possible changes which could make the Board's activities and administration more effective and efficient.

Board Evaluation covers the following areas:

- the manner in which the Board is run, and operates as a team;
- the skills, experience and independence of the Board;
- the strategy of the business;
- the risks of the business;
- the Company's ethical values and behaviours; and
- engagement with shareholders and other stakeholders.

The exercise identified a number of positive areas particularly relating to the skills and experience and independence of the Board and the level of engagement with shareholders. The main area for improvement identified in the previous evaluation was formal succession planning and lack of diversity. A process to address this in more detail has started during the 2020/21 financial year and will resume during the 2021/22 fiscal year.

BOARD REVIEW

Manner in which the Board is run	The level of engagement between NEDs and executives is high. The Board drastically increased the cadence of meetings during the months following the onset of the Covid pandemic to a weekly schedule which proved to be informative and allow for quick decision making. More recently Board cadence has reverted to fewer, but more in-depth sessions to allow for complex discussions.
Skills, independence and experience	We have enlarged the Board over recent years and find the current set-up to reflect a broad perspective of different skills. Especially the appointment of Simon Barrell as NED significantly increased the financial and audit acumen of the Board. A core area of improvement in the Board is diversity. The current Board doesn't appropriately reflect the level of diversity we have in our organisation and future recruiting decisions should clearly take diversity into consideration. There is no formal succession policy which is a deficiency that is being addressed in the 2021/22 fiscal year.
Strategy of the business	The Board has engaged in periodic planning and review processes for the "buy, build and license" strategy. During August 2020, the board started a dedicated "Post-Covid" evaluation of strategy to ensure viability of the business model even in significantly reduced sales environments. In addition, a strategy review has been going on since the end of the 2020/21 fiscal year which has, amongst other aspects, resulted in separating the reporting lines of the business into two major segments.
Risk of the business	Risk of the business is evaluated in-lieu of strategy as the Board perceives risk to be a core influence on strategy. When setting strategy, we reflect on the interdependencies for our risk appetite.
Ethical values and behaviours	Critical developments are monitored in the risk awareness section of every Board meeting. The Company maintains a peer review mechanism for all employees (GrafOS) that allows for flagging of misconduct and feedback mechanism.
Engagement with shareholders	The Board keeps an open and constructive dialogue with its shareholders. In particular, the largest 5-6 shareholders engage in fairly frequent discussions after RNS announcements. We have used our AGM as a platform to communicate strategy and invite shareholders to ask questions in a friendly, constructive and inclusive environment.

Presently no formal Nomination Committee exists in view of the stage of growth of the Company. Appointments to the Board and succession planning are considered by the Board as a whole and are made on merit against objective criteria relating to the skills, knowledge and expertise required, and with due regard for the benefits of diversity on the Board and requirements of the Company.

8. PROMOTE A CORPORATE CULTURE THAT IS BASED ON ETHICAL VALUES AND BEHAVIOURS

The Board firmly believes that culture is driven from the top and through sound Corporate governance, it takes ultimate responsibility for the culture that is developed and evolves under its leadership and guidance. That's why we developed our Leadership Values which sit at the centre of GrafOS.

GrafOS is our operating system for people. Each role in our business is part of a career storyline with required "Intelligence" levels. Team members collect badges as they acquire competences. We encourage team members to 'catch colleagues doing things right' and leave positive feedback against specific Leadership Values they've observed. Likewise, if they spot someone behaving contrary to our Leadership Values, they can share a private ImproveNote with the individual and their leader. It's all designed to encourage and deliver ethical and entrepreneurial behaviour.

The Company's staff manual sets out whistleblowing policy and procedures.

9. MAINTAIN GOVERNANCE STRUCTURES AND PROCESSES THAT ARE FIT FOR PURPOSE AND SUPPORT GOOD DECISION- MAKING BY THE BOARD

The Board

The Board is responsible to shareholders for the proper management of the Group. The Board is responsible for overall Group strategy, approval of major capital expenditure projects and consideration of significant financing matters and approval of Annual and Interim results and budgets.

The Executive Directors have responsibility for the day-to-day operational management of the Group's activities. The Non-Executive Directors are responsible for bringing independent objective judgement to Board decisions.

All directors are supplied with the Company's Continuing Obligations memorandum which is reviewed and updated as required. The memorandum sets out and explains Directors responsibilities and obligations under the AIM Rules, the Market Abuse Regulation and other wider applicable legislation.

A formal schedule of all matters reserved for Board decision is maintained and reviewed regularly (last update February 2017) covering:

- Setting and Review of Strategy and Performance;
- Structure and Capital;
- Maintenance of Financial Reporting and Controls;
- Maintenance of Internal Control and Risk Management systems;
- Material Contracts;
- Investor Relations and Regulatory communications;
- Constitution of Board Membership and other appointments;
- Setting of Directors and Senior Management Remuneration;
- Delegation of Authority amongst the Board and its Committees;
- Implementation of Corporate Governance;
- Approval of Policies.

The Board maintains a rolling scheduled programme of Board meetings each year aligned with relevant events in the Company's financial and trading calendar. Additional meetings are held as and when required.

A formal agenda is prepared for each meeting, Board papers including a CEO's report and KPIs, and FD's report are circulated in advance and minutes are circulated following each meeting recording actions arising and noting any unresolved matters.

Non Board members are also invited to attend on occasion to participate in relevant Board discussions.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The differing roles of Chairman and Chief Executive are acknowledged and there is a clear division of responsibility at the head of the Company.

The key functions of the Chairman are, to oversee the adoption, delivery and communication of the Company's Corporate Governance model, the effective conduct of Board Meetings and meetings of shareholders, to ensure that all Directors are properly briefed in order to take a full and constructive part in Board discussions, and to ensure the Group has appropriate strategic focus and direction.

The Chief Executive has responsibility for leading the implementation of agreed strategy and managing the day-to-day operations of the Group.

Committees

The Board has established an Audit Committee and a Remuneration Committee. In view of the stage of growth of the Company there are no formal Nomination Committee or Corporate Governance Committees, however these arrangements will remain under review.

The Audit Committee and Remuneration Committee presently comprise of Jan-Hendrik Mohr (Chairman), Conrad Bona (Non- Executive Director) and Simon Barrell (Non- Executive Director), the Company's present policy is for any new Non-executive Directors to join both Committees.

The Audit Committee's principal tasks are to review the scope of external audit, to receive regular reports from the auditors, and to review the half-yearly and annual accounts before they are presented to the Board, focusing in particular on legal requirements and accounting standards as well as areas of management judgment and estimation.

The Audit Committee is responsible for monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The Audit Committee acts as a forum for discussion of internal control issues and contributes to the Board's review of the effectiveness of the Group's internal control and risk management systems and processes.

The Audit Committee meets at least twice a year including immediately before the submission of the Annual and Interim Financial Statements to the Board.

The Audit Committee also undertakes a formal assessment of the auditors' independence each year which includes:

- a review of the non-audit services provided to the Company and related fees;
- discussion with the auditors of a written report detailing all relationships with the Company and any other parties that could affect independence or the perception of independence;
- A review of the auditors' own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner;
- Obtaining written confirmation from the auditors that, in their professional judgement, they are independent.

An analysis of the fees payable to the external audit firm in respect of both audit and non-audit services during the year is set out in the Group's Annual Report.

The Audit Committee advises the Board on the appointment of external auditors and on their remuneration for both audit and non- audit work.

Ultimate responsibility for reviewing and approving the Annual and Interim financial statements remains with the Board and a statement of directors' responsibilities in respect of the accounts is set out in the Group's Annual Report.

The Remuneration Committee is responsible for making recommendations to the Board on the Company's framework of Executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance related bonus schemes, pension rights and compensation payments. It also considers and oversees the implementation of any share incentive schemes such as the Company's "Save As You Earn" scheme and Share Stake scheme launched following the onset of Covid-19 whereby members forwent a proportion of their remuneration in return for ordinary shares in the Company.

The Board itself determines the remuneration of the Non-Executive Directors.

The Remuneration Committee meets at least once a year.

A Directors' Remuneration report is set out in the Group's Annual Report.

10. COMMUNICATE HOW THE COMPANY IS GOVERNED AND IS PERFORMING BY MAINTAINING A DIALOGUE WITH SHAREHOLDERS AND OTHER RELEVANT STAKEHOLDERS

The Board places a high priority on clear, fair and objective reporting with its various stakeholder groups.

The Company is presently of a size that doesn't support having a dedicated investor relations department, however the CEO's mobile phone number is provided on all announcements and the Company Secretary's contact details are set out on the website for shareholder enquiries. The Chairman also talks on an adhoc basis with major shareholders and provides feedback to the Board.

We are conscious that, given its present size, the Company attracts limited analyst attention. To that end the CEO maintains strong links with relevant industry media and seeks to articulate Company strategy consistently through them. Calls with journalists are also held to coincide with the release of the Group's Annual Report.

The Group's website is regularly updated and in addition to the Corporate Governance Statement sets out past and present Annual and Interim Reports and Accounts and all Announcements.

The result of voting in the 2020 AGM is presented as follows:

Resolutions	* For	Against	Withheld
1. To receive the Company's Annual Accounts	52,348,138	0	1,000
2. To re-elect Peter Gunning as a Director	49,059,119	3,289,019	1,000
3. To re-elect Iain Brown as a Director	49,061,710	3,286,428	1,000
4. To re-appoint RSM UK Audit LLP as auditors of the Company	52,345,547	2,591	1,000
5. To authorise the Company to replace the existing authority to allot shares and to grant rights to subscribe for or convert any security into such shares	49,056,444	3,286,694	6,000
6. To disapply statutory pre-emption rights	48,287,811	4,055,327	6,000
7. To authorise the Company to make market purchases of its own shares	49,056,710	3,286,428	6,000

* including any votes giving discretion to the Chair.

S.172 COMPANIES ACT 2006 STATEMENT

In addressing each of the ten points of the QCA code above, we provide examples of how the Company:

- takes into account the likely consequences of decisions in the long term;
- have regard to the interests of the Company's shareholders, employees and other stakeholders;
- promotes openness amongst employees and endeavours to maintain a culture built on integrity;
- take into account the desirability of the Company maintaining a reputation for high standards of business conduct, and;
- have regard to the need to act fairly.

The Directors assess and take into account what is most likely to promote the success of the Company for its members in the long term as part of their decision-making process, and make this assessment fairly and in good faith. The Directors continue to promote the success of the Company in accordance with section 172 of the Companies Act 2006.

Audit committee report

The Audit Committee comprises Jan-Hendrik Mohr as chairman, Conrad Bona and Simon Barrell. The Audit Committee meets at least twice a year and is responsible for reviewing the annual and half-yearly financial statements, the system of internal controls and risk management, and the terms of appointment and remuneration of the auditor. It is also the forum through which the auditor reports to the Board. The Audit Committee is also responsible for reviewing the objectivity of the external auditor and the terms under which the external auditor is appointed to perform non-audit services.

During the year the Audit Committee worked with the Group auditors, on the findings of the 2020 audit as well as reviewing the company's full year results on behalf of the Board. It considered significant accounting policies, ensured compliance with accounting standards and considered reports from the external auditor on accounting topics of a judgemental nature requiring attention. The Committee over the year, had separate discussions with the auditor without management being present on the adequacy of controls and any judgemental areas, as well as feedback on the 2020 audit.

Directors' remuneration report

As a company listed on AIM the Company is exempt from the S420 obligation of the Companies Act 2006 to prepare a Directors' Remuneration Report and the S439 obligation to put a written remuneration policy to a shareholder vote once every three years.

REMUNERATION COMMITTEE

The Company has an established Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. The members of the Committee are Jan-Hendrik Mohr, Conrad Bona and Simon Barrell who are Non-executive Directors. Jan-Hendrik Mohr chairs the Committee.

In determining the Directors' remuneration for the year, the Committee consulted the Chief Executive about its proposals. The Committee also sources reports from the Company's various advisers.

REMUNERATION POLICY

The policy of the Committee is to reward Executive Directors in line with the current remuneration of directors in comparable businesses taking into consideration the advice of independent bodies, in order to recruit, motivate and retain high quality executives within a competitive market place.

The main elements of the remuneration packages for Executive Directors and senior management is Basic annual salary (including Directors' fees) and benefits. The Chief Executive receives pension payments over and above the statutory minimums.

BASIC ANNUAL SALARY

Basic pensionable salary is reviewed annually in March with increases, if awarded, taking effect from 1 April. In addition to basic salary, the Executive Directors also receive certain benefits in kind, principally private medical insurance.

ANNUAL CASH BONUS

No incentive payments have been made for the financial year ended 31 March 2021.

PENSION ARRANGEMENTS

The Company contributes to an individual money purchase scheme for the Chief Executive.

DIRECTORS' CONTRACTS

It is the Company's policy that Executive Directors should have contracts with an indefinite term providing for a maximum of six months' notice, except for the Chief Executive who has a twelve month notice period. There are no specific provisions for compensation in the event of loss of office. The Remuneration Committee would consider the circumstances of any early termination and determine compensation payments accordingly.

NON-EXECUTIVE DIRECTORS

The fees of each Non-executive Director are determined by the Board as a whole, excluding the Non-executive being reviewed, having regard to the commitment of time required and the level of fees in similar companies. Non-executive Directors' contracts are subject to three months written notice.

ELEMENTS OF REMUNERATION

Year ended 31 March 2021:

	Basic salary £	Fees £	Benefits £	Bonuses £	Pension £	2021 Total £
J-H Mohr	-	15,000	-	-	-	15,000
C C Bona	-	15,000	-	-	464	15,464
S G Barrell	-	15,000	-	-	-	15,000
P R Gunning	170,250	-	1,012	-	15,525	186,787
I S Brown	85,000	-	305	-	2,577	87,882
G G Cockerill	90,000	-	457	-	2,774	93,231
R A Lightfoot	77,000	-	1,430	-	2,326	80,756
	422,250	45,000	3,204	-	23,666	494,120

All of the Executive Directors elected to receive between 20% and 30% of their monthly net remuneration in new ordinary shares from 1 April 2020 for a period of seven months. Non Executive Directors elected to receive 100% of their fees in new ordinary shares for the same period. The Chairman donated his fee to "The Chairman's Seam Team Fund" for the same period.

Year ended 31 March 2020:

	Basic salary £	Fees £	Benefits £	Bonuses £	Pension £	2020 Total £
J-H Mohr	-	15,000	-	-	-	15,000
C C Bona	-	15,000	-	-	455	15,455
S G Barrell *	-	64,047*	-	-	-	64,047
P R Gunning	170,250	-	968	-	15,525	186,743
I S Brown (since appointment)	22,256	-	-	-	589	22,845
G G Cockerill	90,000	-	442	-	2,700	93,142
R A Lightfoot	77,000	-	1,367	-	2,310	80,677
	359,506	94,047	2,777	-	21,579	477,909

*Includes £61,600 of consultancy services provided through SGB Consulting Limited whilst acting as Interim Finance Director to Grafenia Operations Limited.

DIRECTORS' INTERESTS

At 31 March 2021, the Directors had the following beneficial interests in the Company's shares.

	Ordinary shares of 1p each	
	31 March 2021	31 March 2020
J-H Mohr	**-**	-
C C Bona	**1,170,007**	1,086,427
P R Gunning	**1,956,352**	1,725,000
G G Cockerill	**92,518**	4,874
R A Lightfoot	**152,156**	75,000
I S Brown	**84,208**	-
S G Barrell	**85,356**	-

On 28 April 2020 the Company announced the launch of the Share Stake Scheme (the "Scheme") which allowed team members to elect to forgo a proportion of their remuneration receivable from the Company, in return for the receipt of new ordinary shares of one penny each in the Company ("New Ordinary Shares") to be issued at a price of 7.75p. Details of the number of new Ordinary Shares issued to each Director under the scheme are disclosed in note 24.

The market price of shares as at 31 March 2021 was 5.63 pence *(2020: 6.25 pence)*. The range during the period under review was 3.50 pence to 11.10 pence.

Independent auditors' report to the members of Grafenia plc

OPINION

We have audited the financial statements of Grafenia Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2021 which comprise the consolidated statement of comprehensive income, consolidated and company statement of financial position, consolidated and company statements of changes in equity, consolidated statement 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 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 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 consideration of the cash flow forecasts and scenario analysis present and headroom provided by existing funding facilities.

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.

SUMMARY OF AUDIT APPROACH

Key audit matters	**Group** · Revenue recognition · Bond accounting treatment · Impairment of intangible assets **Parent Company** · Impairment of investments and intercompany receivables
Materiality	**Group** · Overall materiality: £283k *(2020: £361k)* · Performance materiality: £212k *(2020: £270k)* **Parent Company** · Overall materiality: £247k *(2020: £240k)* · Performance materiality: £185k *(2020: £180k)*
Scope	Our audit procedures covered 98% of revenue, 97% of net assets and 96% 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.

REVENUE RECOGNITION

Key audit matter description	*(Refer to page 54 regarding the accounting policy in respect of revenue recognition and note 3 in respect of revenue and operating segments).* There are numerous revenue streams within the business. There is a risk that revenue is not accurately captured within the financial statements or that the established revenue recognition policy is not appropriately applied given the various types of revenue earned.
How the matter was addressed in the audit	The existence and accuracy of revenue recognised was assessed via detailed testing by reference to contracts with customers and invoices issued. The recognition of revenue around the period end was reviewed to determine that it had been captured in the correct period. The completeness of revenue was reviewed by reference to journal entries to revenue during the period.

BOND ACCOUNTING TREATMENT

Key audit matter description	*(Refer to page 55 regarding the accounting policy in respect of financial liabilities, note 17 in respect of borrowings and note 24 in respect of related party transactions).* Bonds were issued in the period which are listed on the Frankfurt Main market. The bonds were issued at a discount to par, attract no interest for the first 3 years, and include an exclusive one-way call option to repay the bonds at the discretion of the business after the interest-free period. The bonds were purchased by a related party. There is a risk that the various terms of the bonds are not appropriately accounted for in line with IFRS 9 Financial Instruments.
How the matter was addressed in the audit	The accounting treatment of the bonds was reviewed and considered against the detailed terms of the bonds and the requirements of IFRS 9. The fair value of the liability at inception was compared to the transaction price and funds received by the group. The effective interest rate was scrutinised based on the expected cash flows relating to the bond and the expected timing of repayment. The fair value of the exclusive one-way call option was assessed based on the likelihood of the group calling upon this option.

IMPAIRMENT OF INVESTMENTS, INTERCOMPANY RECEIVABLES AND INTANGIBLE ASSETS

Key audit matter description	*(Refer to the accounting policy on page 56 in respect of impairment of assets and note 11 in respect of intangible assets and investments)* The parent company holds significant investments and intercompany balances with its subsidiary companies. At a group level there are significant intangible assets pertaining to the trade and activities of the subsidiary companies. There is a risk that the amounts held on the balance sheet are no longer reflective of the true value in use of the underlying trade or balances.
How the matter was addressed in the audit	Management's impairment review of investments and intercompany accounts was obtained and reviewed. We challenged the assumptions used by management and sensitised the net present value calculations and compared cash flows to budget information to ensure this was consistent with our understanding of the business and its strategic plans for the group.

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.

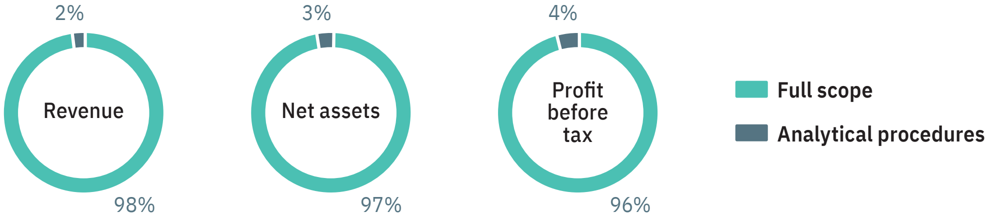
Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£283k *(2020: £361k)*	£247k *(2020: £240k)*
Basis for determining overall materiality	5% of gross profit	1% of net assets
Rationale for benchmark applied	Profitable growth is considered the key benchmark for the group	The parent company's key function is as a holding company with investments in its subsidiary entities
Performance materiality	£212k *(2020: £270k)*	£185k *(2020: £180k)*
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £14,100 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £12,300 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 5 components, 3 of which are based in the UK, one of which is based in France and one of which is based in the US.

The coverage achieved by our audit procedures was:



Of the above, no audits or procedures were undertaken by component auditors.

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 30, 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.

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 audit engagement team included:
IFRS/UK-adopted IAS, FRS101 and Companies Act 2006	Review of the financial statement disclosures and testing to supporting documentation; Completion of disclosure checklists to identify areas of non-compliance
CJRS claim compliance	Consultation with our internal specialists who have reviewed a sample of entries within the claim Consideration of accounting treatment and associated disclosures

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

Risk	Additional audit procedures performed by the audit engagement team included:
Revenue recognition	Substantive tests of detail over a sample of sales recognised in the year including agreement of the sales value to underlying sales documentation and the occurrence to evidence of delivery Consideration of the completeness of sales by reference to journal entries posted to revenue in the year Reviewing the cut-off treatment of a sample of sales recorded around the year end
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: **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.

ALASTAIR JOHN RICHARD NUTTALL (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
3 Hardman Street
Manchester
M3 3HF
Date: 27 July 2021

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 MARCH 2021	*Note*	**2021 £000**	2020 £000
Revenue	3	**9,748**	15,604
Raw materials and consumables used		**(4,173)**	(7,627)
Gross profit		**5,575**	7,977
Staff costs	5	**(3,700)**	(5,686)
Other operating charges	4	**(2,035)**	(3,580)
Earnings before interest, tax, depreciation and amortisation		**(160)**	(1,289)
Depreciation and amortisation	10 & 11	**(1,705)**	(2,025)
Operating loss	4	**(1,865)**	(3,314)
Financial income		**16**	25
Financial expenses	6	**(477)**	(342)
Net financing expense		**(461)**	(317)
Loss before tax		**(2,326)**	(3,631)
Tax income	7	**241**	258
Loss for the year		**(2,085)**	(3,373)
Other comprehensive income		**-**	-
Total comprehensive income for the year		**(2,085)**	(3,373)
Loss per share attributable to the ordinary equity shareholders of Grafenia plc			
Basic and diluted[1], pence per share	8	**(1.83)p**	(3.27)p

(1) Earnings per share suffers no dilution

The notes on pages 53-75 form part of these financial statements.

Consolidated and company statement of financial position

AT 31 MARCH 2021	Note	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Non-current assets					
Property, plant and equipment	10	5,065	5,483	-	-
Intangible assets	11	3,510	3,858	-	-
Investments in subsidiaries	12	-	-	3,578	3,457
Total non-current assets		8,575	9,341	3,578	3,457
Current assets					
Inventories	13	444	346	-	-
Trade and other receivables	14	1,545	2,150	7,445	6,738
Prepayments		278	447	9	21
Cash and cash equivalents	15	2,740	1,104	2,266	387
Total current assets		5,007	4,047	9,720	7,146
Total assets		13,582	13,388	13,298	10,603
Current liabilities					
Other interest-bearing loans and borrowings	17	931	753	120	-
Deferred consideration	17	-	147	-	147
Trade and other payables	16	1,799	2,160	84	86
Deferred income	16	60	143	-	-
Total current liabilities		2,790	3,203	204	233
Non-current liabilities					
Other interest-bearing loans and borrowings	17	6,149	3,483	2,964	-
Deferred tax liabilities	9	389	448	-	-
Total non-current liabilities		6,538	3,931	2,964	-
Total liabilities		9,328	7,134	3,168	233
Net assets		4,254	6,254	10,130	10,370
Equity attributable to equity holders of the parent					
Share capital	20	1,145	1,135	1,145	1,135
Merger reserve		838	838	627	627
Share premium	21	7,866	7,801	7,866	7,801
Share based payment reserve		84	74	84	74
Retained earnings		(5,679)	(3,594)	408	733
Total equity		4,254	6,254	10,130	10,370

The Parent Company result for the year was a loss of £325,000 *(2020: £3,111,000)*.

The notes on pages 53-75 form part of these financial statements.

The financial statements of Grafenia plc, registered number 03983312, were approved by the board of directors on 27 July 2021 and were signed on its behalf by:

I S BROWN
Director

Consolidated and company statement of changes in shareholders' equity

GROUP – YEAR ENDED 31 MARCH 2021

	Share Capital £000	Merger reserve £000	Share Premium £000	Share Based Payment Reserve £000	Retained Earnings £000	Total £000
Balance at 31 March 2019	847	838	4,125	47	(221)	5,636
Loss and total comprehensive income for the year	-	-	-	-	(3,373)	(3,373)
Shares issued in the period	288	-	3,738	-	-	4,026
Costs associated with share issue	-	-	(62)	-	-	(62)
Share option reserve	-	-	-	27	-	27
Total movement in equity	288	-	3,676	27	(3,373)	618
Balance at 31 March 2020	1,135	838	7,801	74	(3,594)	6,254
GROUP – YEAR ENDED 31 MARCH 2021						
Loss and total comprehensive income for the year	**-**	**-**	**-**	**-**	**(2,085)**	**(2,085)**
Shares issued in the period	**10**	**-**	**65**	**-**	**-**	**75**
Share option reserve	**-**	**-**	**-**	**10**	**-**	**10**
Total movement in equity	**10**	**-**	**65**	**10**	**(2,085)**	**(2,000)**
Balance at 31 March 2021	**1,145**	**838**	**7,866**	**84**	**(5,679)**	**4,254**

COMPANY – YEAR ENDED 31 MARCH 2020

	Share Capital £000	Share Based Merger reserve £000	Share Premium £000	Payment Reserve £000	Retained Earnings £000	Total £000
Balance at 31 March 2019	847	627	4,125	47	3,844	9,490
Loss and total comprehensive income for the year	-	-	-	-	(3,111)	(3,111)
Shares issued in the period	288	-	3,738	-	-	4,026
Costs associated with share issue	-	-	(62)	-	-	(62)
Share based payments	-	-	-	27	-	27
Total movement in equity	288	-	3,676	27	(3,111)	880
Balance at 31 March 2020	1,135	627	7,801	74	733	10,370
COMPANY – YEAR ENDED 31 MARCH 2021						
Loss and total comprehensive income for the year	**-**	**-**	**-**	**-**	**(325)**	**(325)**
Shares issued in the period	**10**	**-**	**65**	**-**	**-**	**75**
Share based payments	**-**	**-**	**-**	**10**	**-**	**10**
Total movement in equity	**10**	**-**	**65**	**10**	**(325)**	**(240)**
Balance at 31 March 2021	**1,145**	**627**	**7,866**	**84**	**408**	**10,130**

The notes on pages 53-75 form part of these financial statements.

Consolidated statement of cash flows

FOR YEAR ENDED 31 MARCH 2021	Note	**Group 2021 £000**	Group 2020 £000
Cash flows from operating activities			
Loss for the year		**(2,085)**	(3,373)
Adjustments for:			
Depreciation, amortisation and impairment		**1,705**	2,025
Loss / (profit) on sale of plant and equipment		**5**	(99)
Reduction in deferred consideration	4	**-**	(220)
Release of deferred profit on sale of plant and equipment	4	**(14)**	(12)
Share based payments		**10**	27
Net finance expense		**461**	317
Bad debt expense		**169**	588
Tax income		**(241)**	(258)
Operating cash flow before changes in working capital and provisions		**10**	(1,005)
Change in trade and other receivables		**465**	444
Change in inventories		**(96)**	109
Change in trade and other payables		**(338)**	(708)
Cash generated from / (utilised by) operations		**41**	(1,160)
Interest paid		**(9)**	-
Interest received		**7**	-
R&D tax income received		**172**	67
Net cash inflow / (outflow) from operating activities		**211**	(1,093)
Cash flows from investing activities			
Proceeds from sale of plant and equipment		**10**	265
Acquisition of plant and equipment		**(90)**	(383)
Capitalised development expenditure	11	**(419)**	(373)
Acquisition of other intangible assets	11	**(259)**	(305)
Acquisition of Subsidiary net of cash (group)		**(84)**	-
Net cash used in investing activities		**(842)**	(796)
Cash flows from financing activities			
Proceeds / (repayment) of funding from invoice finance		**81**	(947)
Proceeds from loans	17	**3,010**	-
Repayment of loans		**(81)**	(211)
Capital payment of lease liabilities		**(411)**	(622)
Interest payment of lease liabilities		**(260)**	(317)
Payment of deferred consideration		**(147)**	(228)
Issue of shares (net of costs)		**75**	3,964
Net cash generated from financing activities		**2,267**	1,639
Net increase / (decrease) in cash and cash equivalents		**1,636**	(250)
Cash and cash equivalents at start of year		**1,104**	1,354
Cash and cash equivalents at 31 March 2020	15	**2,740**	1,104

The notes on pages 53-75 form part of these financial statements.

Notes to the the financial statements

1. ACCOUNTING POLICIES

GENERAL INFORMATION

Grafenia plc (the "Company") is a public limited company incorporated and domiciled in the UK. The company's registered office is Third Avenue, The Village, Trafford Park, Manchester M17 1FG.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and are presented in sterling. The parent company financial statements present information about the Company as a separate entity and not about its Group.

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

There have been no significant new or revised International Financial Reporting Standards adopted by the Group in the year.

BASIS OF PREPARATION

The Group financial statements comprise the financial statements of the Company and all of its subsidiaries made up to the financial year end. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The consolidated financial statements are prepared under the historic cost convention.

The principal accounting policies adopted in the preparation of the financial information are set out below. The policies have been consistently applied to all the periods presented.

The financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRSs") issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs").

Intercompany balances and transactions have been eliminated. Profits from intercompany sales, to the extent that they are not yet realised outside the Group, have also been eliminated.

GOING CONCERN

Information regarding the Group's business activities together with the factors likely to affect its future development, performance and position is set out in the Chairman's and Chief Executive's Statement on pages 3-23. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 21-25. In addition, note 22 to the financial statements includes details of the Group's financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

As part of the consideration of the appropriateness of adopting the going concern basis of accounting, the Directors have prepared a forecast and applied reasonable sensitivities, covering the cash flow impact associated with a further year of COVID-19 disruption. The primary cash flow impact identified in the sensitivity analysis is a significant reduction in cash collections driven by lower customer demand. The Directors also considered the potential levers at their discretion to improve the cash position, including a number of further reductions in operating expenditure across the group, primarily related to workforce cost reductions. Having considered these scenarios, the Group continues to have sufficient cash headroom.

Based on the above the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and is well placed to manage its business risks successfully despite the continued uncertain economic outlook caused by Covid-19.

Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

1. ACCOUNTING POLICIES (CONTINUED)

BUSINESS COMBINATIONS

For acquisitions the Group measures goodwill at the acquisition date as the:

- fair value of the consideration transferred; plus
- recognised amount of any non-controlling interests in the acquiree; plus
- fair value of the existing equity interest in the acquiree; less
- net recognised amount (fair value) of the identifiable assets acquired and liabilities assumed.
- Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

INVESTMENTS

Investments in subsidiaries are stated at cost less provision for any permanent diminution in value. Where in the opinion of the Directors an impairment of the investment has arisen, the value of the investment will be written down to the recoverable amount in accordance with IAS 36 'Impairment of Assets'.

REVENUE

IFRS 15, in respect of the recognition of Revenue from Contracts with customers, requires the Group to separately recognise revenue with respect to the various components of the contractual arrangements. Where contracts have separately identifiable components with distinct patterns of delivery and customer acceptance, revenue is accounted for separately once the performance obligation is satisfied.

The Group contracts with its customers on two main bases:

- Production of product. The group considers the performance obligation to have been met when the product is delivered and, where required, installed.
- Licence fees, including franchise fees, for SaaS products are for a set period of time as specified with the customer. There is considered to be a single performance obligation for delivering a managed software service which is satisfied over the length of the contract. Revenue is therefore recognised over the life of the contract.

No adjustment is made to the revenue recognised in respect of any financing component of the contract.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the board of directors.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and is valued at purchased cost. Net realisable value is based on estimated selling price less additional costs to completion and necessary costs to make the sale.

FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS

The Group and Company classify all its financial assets into the amortised cost category. The accounting policies for each category is as follows:

- Trade and loan receivables: Trade receivables are initially recognised and carried at original invoice amount less an allowance for any uncollectible or impaired amounts. An impairment provision is calculated by considering the trade receivables and expected credit losses. The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to the period end. The historical loss rates are then adjusted for current and forward- looking information on factors affecting the Group's customers.
- An estimate for doubtful debts is also made when collection of the full amount is no longer probable. Debts are written off when they are identified as being uncollectible. Trade receivables and other receivables are recognised at fair value.
- Loan receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the intercompany loans; Impairment of loan receivables is calculated utilising the lifetime expected credit losses of these loans and the changes in the credit risk of the counterparty.
- Cash and cash equivalents in the statement of financial position comprise cash at bank and cash in hand.

FINANCIAL LIABILITIES

The Group and Company treat financial liabilities in accordance with the following accounting policies:

- Trade payables and other short-term monetary liabilities are recognised at fair value and subsequently at amortised cost.
- Invoice discounting and loans are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method. "Interest expense" in this context includes initial transaction costs and premiums payable on redemption, as well as any interest payable while the liability is outstanding.
- Bearer Bonds are initially recognised at fair value net of any discount or transaction costs directly attributable to the issue of the instrument. They are subsequently measured at amortised cost using the effective interest rate method. "Interest expense" in this context includes initial transaction costs and the initial discount to the nominal value on inception, as well as any interest payable while the liability is outstanding.

SHARE CAPITAL

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability.

The Company's ordinary shares are classified as equity instruments.

BORROWING COSTS

Borrowing costs are recognised in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they are incurred.

CURRENT TAXATION

The current tax is based upon the taxable profit for the period together with adjustments, where necessary, in respect of prior periods. The Group's asset or liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the financial period end date.

Current tax is recognised in the Statement of Profit or Loss and Other Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

DEFERRED TAXATION

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Statement of Financial Position differs from its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and impairments. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Fixtures and fittings	- 20% to 33% straight line
Plant and equipment	- 7% to 30% straight line
Motor Vehicles	- 25% straight line
Leasehold improvements	- over remaining lease life, straight line
Right of use assets	- over the life of the lease, straight line

Where assets have been depreciated down to their estimated residual value they are no longer depreciated, a number of assets were subject to this in the year.

The Company has no Premises, Plant or Equipment.

ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS

RESEARCH AND DEVELOPMENT COSTS

Development costs are charged to the profit and loss account in the year of expenditure, except when individual projects satisfy the following criteria:

- the project is clearly defined and related expenditure is separately identifiable;
- the project is technically feasible and commercially viable;
- current and future costs will be exceeded by future sales; and adequate resources exist for the project to be completed.

In such circumstances the costs are carried forward and amortised over three years. Impairment risk is reviewed by the Board.

Amortisation is charged to profit and loss on a straight-line basis over the useful economic life of the asset as follows:

Domains & brand	- 20 years
Software	- 3 years
Capitalised development costs	- 3 years
Customer Lists	- 3 to 10 years
Other	- 20 years

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses.

SOFTWARE

External expenditure on computer systems and software is stated at cost less accumulated amortisation and impairment losses. Amortisation is on a straight-line basis over the useful economic life of the asset set at three years.

CUSTOMER LISTS

Customer lists arise on the buy-back of Studios and on the acquisition of subsidiary companies. Customer lists are being amortised over three to ten years and are individually tested bi-annually for indications of impairment.

GOODWILL

Goodwill may arise on acquisitions, where this occurs the valuation will be supported by a fair value assessment of the revenues expected to flow from customer relationships allowing for an appropriate level of attrition.

IMPAIRMENT OF NON FINANCIAL ASSETS

The carrying amounts of the Group's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit and loss.

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

LEASES

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate of 6.9%.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented within Property, Plant and Equipment and disclosed separately in note 18.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the ‘Property, Plant and Equipment’ policy.

FINANCING COSTS

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in profit and loss on the date the entity’s right to receive payments is established.

SHARE BASED PAYMENTS

The Group operates an equity-settled share-based compensation plan through a SAYE scheme, under which the Company receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the instruments granted, calculated using the Black Scholes model. At the end of each reporting period, the Group revises its estimates of the number of instruments that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

FOREIGN CURRENCIES

Foreign currency transactions are recorded at the exchange rate prevailing at the date of the transaction. At each Balance Sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the Balance Sheet date. Translation differences on monetary items are taken to profit and loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of transaction.

The financial statements of overseas subsidiaries are translated into sterling at the exchange rate ruling at the Balance Sheet date; income and expenses are translated at exchange rates at the date of transaction. The resulting surpluses and deficits are taken directly to profit and loss.

On disposal of a foreign subsidiary any cumulative exchange differences held in shareholders’ equity are transferred to the Consolidated Statement of Comprehensive Income.

1. ACCOUNTING POLICIES (CONTINUED)

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

INTANGIBLES – CAPITALISATION AND VALUATION OF SOFTWARE AND DEVELOPMENT COSTS AND ACQUIRED INTANGIBLES

The Board consider that the Group's key differentiators stem from its proprietary software, operationally w3p, developed to support Brand Partners Nettl and printing.com, Marqetspace and online initiatives. It is essential to continue investing in these assets. Projects are agreed with user forums to improve functionality for Partners. Separate projects are defined for international expansion and for new initiatives as they are identified. Development costs are capitalised where a project has been defined, tested and expected to realise future economic benefits. Programming is carried out by third parties working to a detailed specification and schedule. The Board exercises judgement in determining the costs to be capitalised and determine the useful economic life to be applied typically 3 years or whilst the asset in question remains in use. Acquired intangibles have been identified as the customer base and brand, the valuation is based upon future discounted cash flows and expectations for the business. Further, the Board will use estimates of future incremental cash flows to periodically assess the carrying value of intangible assets.

IMPAIRMENT OF INTANGIBLE ASSETS AND INVESTMENT IN SUBSIDIARIES.

In assessing impairment, Management estimates the recoverable amount of cash generating units based on expected future cash flows and uses the weighted average cost of capital to discount them. At the end of each reporting period the Management reviews a four year forward looking financial projection including a terminal value for the Group. The Management has further evaluated the terminal growth expectations and the applied discount rate applicable to derive a Net Present Valuation (NPV) of the Group. If the NPV of the Group shows a lower valuation than the net assets or the company cost of investment in subsidiaries plus intercompany balances due, an impairment will be made. Based on this evaluation, including management estimates and assumptions, no impairment was made during the reporting period. Estimation uncertainty relates to assumptions about future operating results in particular sales volumes and the determination of a suitable discount rate.

ESTIMATION OF THE EXPECTED CREDIT LOSSES ON TRADE RECEIVABLES

In assessing the expected credit losses, in respect of the trade receivables under IFRS 9, the Group considers the past performance of the receivable book along with future factors that may affect the credit worthiness of the entire trade receivables. Estimations have therefore been made within these assumptions which could affect the carrying value of the trade receivables.

BEARER BONDS

The bearer bonds issued by the Company have no fixed maturity. In order to establish an effective interest rate, management is required to determine the expected life of the bonds and has estimated this to be 20 years from the date of issue. In assessing the fair value of the embedded derivative relating to the exclusive one way call option, judgement is required in order to assess the likelihood of the business exercising this option.

2. ACQUISITIONS OF SUBSIDIARIES

On 25 September 2020, the company acquired all of the ordinary shares of Eggshell Solutions Limited for an initial consideration of £0.12m, satisfied in cash, of which £0.08m was deferred over 5 months. On 28 September 2020, the company was hived up into Grafenia Operations Limited as part of the Birmingham superstore. In the six months of ownership, the subsidiary contributed sales of £0.11m. If the acquisition had occurred on 1 April 2020, Group revenue would have increased by £0.10m and generated an estimated net profit of £0.03m.

In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on the first day of the accounting period.

EFFECT OF ACQUISITION

The acquisition had the following effect on the Group's assets and liabilities.

	Book and fair values on acquisition £000	Intangibles acquired £000	Total assets and liabilities £000
Acquiree's net assets at the acquisition date:			
Property, plant and equipment	1	-	1
Intangible assets	-	80	80
Trade and other receivables	44	-	44
Cash and cash equivalents	37	-	37
Trade and other payables	(41)	-	(41)
Deferred tax	-	(15)	(15)
Net identifiable assets and liabilities	**41**	**65**	**106**
Goodwill	-	15	15
Net assets acquired	**41**	**80**	**121**

Consideration paid:	
Initial cash price	41
Deferred consideration at fair value	80
Total consideration	**121**

Intangibles acquired include the customer base arising on the acquisition and recognising the value placed upon acquired customer revenues. Those intangibles result in a deferred tax charge.

In addition to the acquisition of Eggshell Solutions Limited, the Group also acquired the trade and assets of Sign Right, a signage business based in Dublin, for £0.03m on 4 November 2020.

3. REVENUE AND SEGMENTAL INFORMATION

The Group's operating and reporting segments are geographic being UK & Ireland, Europe and others. The segmental analysis by nature of service includes Licence Fees, Company owned Studio revenue, Brand Partner print and Online sales plus Trade print. This disclosure correlates with the information which is presented to the Board, which reviews revenue (which is considered to be the primary growth indicator) by segment. The Group's costs, finance income, tax charges, non-current liabilities, net assets and capital expenditure are only reviewed by the CEO at a consolidated level and therefore have not been allocated between segments in the analysis below.

ANALYSIS BY LOCATION OF SALES	UK & Ireland £000	Europe £000	Other £000	Total £000
Year ended 31 March 2021 Segment revenues	**9,117**	**242**	**389**	**9,748**
Year ended 31 March 2020 Segment revenues	14,791	384	429	15,604

Revenue generated outside the UK is attributable to partners in Australia, Belgium, France, New Zealand, The Netherlands and the USA. No single customer provided the Group with over 6% of its revenue.

3. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

DISAGGREGATION OF REVENUE

The disaggregation of revenue from contracts with customers is as follows:

	Nettl Systems				Works Manchester			Total
	Licence Fees £000	Company Stores £000	Brand Partner Print £000	£'000	Works Sign Businesses £000	Online & Trade £000	£'000	£000
Year ended 31 March 2021	**2,077**	**1,832**	**1,916**	**5,825**	**2,804**	**1,119**	**3,923**	**9,748**
Year ended 31 March 2020	2,083	2,806	3,414	8,303	4,624	2,677	7,301	15,604

Of the Group's non-current assets (excluding deferred tax) of £8,575,000, £8,545,000 are located in the UK. Non-current assets located outside the UK are in France £5,000 *(2020: £6,000)* and Ireland £25,000 *(2020: nil)*.

4. LOSS BEFORE TAXATION

Included in profit are the following:

	2021 £000	2020 £000
Amortisation of intangible assets	**1,121**	1,192
Depreciation	**584**	834
Doubtful debt expense	**160**	588
Loss / (profit) on sale of plant and equipment	**(5)**	101
Profit on sale and leaseback recognised in the year	**14**	12
Coronavirus job retention scheme income	**(729)**	-
Gain on variation of prior acquisition*	**-**	159
Restructuring costs	**97**	244

*On 30 August 2019, one of the vendors of Works Manchester Limited (formerly Image Everything Limited) stepped down as an executive, forgoing £220,000 of deferred consideration. £61,000 of deemed salary cost deferred from the initial consideration was released to the income statement at the same time.

Auditors' remuneration:

	2021 £000	2020 £000
Audit of these financial statements	**40**	40
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the company	**33**	33
Review of interim financial statements	**-**	5

5. STAFF NUMBERS AND COSTS

The average number of persons employed by the Group (including Directors) during the year analysed by category, were as follows:

Number of employees	**Group 2021**	Group 2020	**Company 2021**	Company 2020
Administration	**31**	34	**3**	2
Sales and distribution	**59**	70	**-**	-
Production	**69**	99	**-**	-
	159	203	**3**	2

Defined contribution plan

The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group. The amounts charged to the Consolidated Statement of Comprehensive Income represent the contributions payable to the scheme in respect of the accounting period. In the year ended 31 March 2021 £117,000 of contributions were charged to the Consolidated Statement of Comprehensive Income *(2020: £120,000)*. As at 31 March 2021 £34,000 *(2020: £78,000)* contributions were outstanding on the balance sheet.

The aggregate payroll costs of all employees, including Directors, were as follows:

	Group 2021 £000	Group 2020 £000	**Company 2021 £000**	Company 2020 £000
Wages and salaries	**3,170**	5,062	**45**	32
Social security costs	**413**	504	**2**	1
Other pension costs	**117**	120	**-**	-
	3,700	5,686	**47**	33

Wages and salaries in 2021 are net of £729,000 income from the Coronavirus job retention scheme.

KEY MANAGEMENT COMPENSATION:

	2021 £000	2020 £000
Key managements' emoluments	**422**	424
Company contributions to money purchase pension plans	**24**	21
	446	445

The Group considers the key management to be the Executive Directors of the Group. Information covering Directors' remuneration is set out in full in the 'Elements of remuneration' section of the Directors Remuneration Report on pages 41-42 where details of fees and benefits can be found.

The aggregate of emoluments for the highest paid Director was £171,000 *(2020: £171,000)*, and Company pension contributions of £16,000 *(2020: £16,000)* were made to a money purchase scheme on their behalf.

Directors for whom retirement benefits are accruing under money purchase schemes 5 *(2020: 5)*.

6. FINANCE INCOME AND EXPENSE

Finance expense	**2021 £000**	2020 £000
Lease interest	**260**	330
Invoice finance	**9**	10
Bearer Bond interest	**100**	-
Loan interest	**55**	2
Foreign exchange losses	**53**	-
Total finance expense	**477**	342

7. TAXATION

Recognised in the income statement	**2021 £000**	2020 £000
Current tax expense		
Current year	**(166)**	(146)
Adjustments for prior years	**(1)**	6
	(167)	(140)
Deferred tax expense		
Origination and reversal of temporary differences (see note 9)	**(74)**	(128)
Adjustment in respect of prior year	**-**	10
Total tax in income statement	**(241)**	(258)

RECONCILIATION OF EFFECTIVE TAX RATE

Factors affecting the tax charge for the current period:

The current tax charge for the period is lower *(2020: lower)* than the standard rate of corporation tax in the UK of 19% *(2020: 19%)*.

The differences are explained below:

	2021 £000	2020 £000
Loss before tax	**(2,326)**	(3,631)
Tax using the UK corporation tax rate of 19% *(2020:19%)*	**(442)**	(690)
Effects of:		
Other tax adjustments, reliefs and transfers	**(99)**	(40)
Adjustments in respect of prior periods – current tax	**(1)**	6
Adjustments in respect of prior periods – deferred tax	**-**	10
Deferred tax not recognised	**248**	403
Research and Development losses surrendered	**223**	227
Research and Development super deduction	**(170)**	(174)
Total tax credit	**(241)**	(258)

The Group tax debtor amounts to £163,000 *(2020 Debtor: £354,000)*. The deferred tax liabilities as at 31 March 2021 have been calculated using the tax rate of 19% which was substantively enacted at the balance sheet date.

At Budget 2020, the government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%.

8. EARNINGS PER SHARE

The calculations of earnings per share are based on the following profits and numbers of shares:

	2021 £000	2020 £000
Loss after taxation for the financial year from continuing operations	**(2,085)**	(3,373)

	Weighted average number of Shares	Weighted average number of Shares
For basic earnings per ordinary share	**113,831,139**	102,993,216
Exercise of share options	**-**	-
For diluted earnings per ordinary share	**113,831,139**	102,993,216
Basic and diluted loss per share	**(1.83)p**	(3.27)p

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The holders of deferred shares shall not be entitled to any participation in the profits or the assets of the Company and the deferred shares do not carry any voting rights.

9. DEFERRED TAX ASSETS AND LIABILITIES – GROUP

Recognised deferred tax assets and liabilities

	Assets 2021 £000	Assets 2020 £000	Liabilities 2021 £000	Liabilities 2020 £000
Intangible assets	**-**	-	**389**	448
Tax liabilities	**-**	-	**389**	448

Movement in deferred tax during the year.	**1 April 2020 £000**	**Adjustment for prior years £000**	**Recognised in income £000**	**Recognised in income due to tax rate change £000**	**31 March 2021 £000**
Property, plant and equipment	**-**	**-**	**-**	**-**	**-**
Intangible assets	**448**	**15**	**(74)**	**-**	**389**
	448	**15**	**(74)**	**-**	**389**

Movement in deferred tax during the year.	1 April 2019 £000	Adjustment for prior years £000	Recognised in income £000	Recognised in income due to tax rate change £000	31 March 2020 £000
Property, plant and equipment	-	-	-	-	-
Intangible assets	576	-	(128)	-	448
	576	-	(128)	-	448

The Group has unrecognised deferred tax assets in respect of carried forward losses of £1,255,000 *(2020: £995,000)*.

Company

The Company had no recognised deferred tax assets as at 31 March 2021 *(2020: nil)*.

10. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Land and buildings £000	Plant and equipment £000	Assets held for resale £000	Motor Vehicles £000	Fixtures and Fittings £000	Total £000
Cost						
Balance at 31 March 2019	576	5,383	265	83	1,324	7,631
Right-of-use assets recognised on IFRS 16 adoption	1,999	37	-	56	-	2,092
Additions	-	173	-	-	259	432
Disposals	-	(2)	(265)	-	-	(267)
Balance at 31 March 2020	2,575	5,591	-	139	1,583	9,888
Additions	-	168	-	8	4	180
Acquisition of subsidiary	-	1	-	-	-	1
Disposals	-	(523)	-	(28)	-	(551)
Balance at 31 March 2021	**2,575**	**5,237**	**-**	**119**	**1,587**	**9,518**
Depreciation and impairment						
Balance at 31 March 2019	576	2,116	-	69	810	3,571
Depreciation charge for the year	260	378	-	32	164	834
Balance at 31 March 2020	836	2,494	-	101	974	4,405
Depreciation charge for the year	260	140	-	27	157	584
Disposals	-	(508)	-	(28)	-	(536)
Balance at 31 March 2021	**1,096**	**2,126**	**-**	**100**	**1,131**	**4,453**
Net book value						
At 31 March 2019	-	3,267	265	14	514	4,060
At 31 March 2020	1,739	3,097	-	38	609	5,483
At 31 March 2021	**1,479**	**3,111**	**-**	**19**	**456**	**5,065**

Depreciation is charged in the statement of comprehensive income to other operating charges.

Right-of-use assets are included within the same asset categories as they would have been if they were owned. As of 31 March 2021 the Group has right-of-use assets with a carrying value of £3,806,000 *(2020: £4,116,000)*. A table showing the net book value of right-of-use assets within property, plant and equipment at 31 March 2021 and 31 March 2020, split by category, is disclosed in note 18.

11. INTANGIBLE ASSETS

Group	Domains & brand £000	Software £000	Development costs £000	Customer Lists £000	Goodwill £000	Other £000	Total £000
Cost							
Balance at 31 March 2019	912	3,965	3,686	3,165	141	157	12,026
Additions – internally developed	-	-	373	-	-	-	373
Additions – purchased	-	300	-	-	-	5	305
Balance at 31 March 2020	912	4,265	4,059	3,165	141	162	12,704
Additions – internally developed	-	-	419	-	-	-	419
Additions – purchased	-	259	-	-	-	-	259
Acquisition of subsidiary	-	-	-	80	15	-	95
Balance at 31 March 2021	**912**	**4,524**	**4,478**	**3,245**	**156**	**162**	**13,477**
Amortisation and impairment							
Balance at 31 March 2019	366	3,493	2,872	804	12	108	7,655
Amortisation for the year	46	312	426	401	-	6	1,191
Balance at 31 March 2020	412	3,805	3,298	1,205	12	114	8,846
Amortisation for the year	30	297	389	399	-	6	1,121
Balance at 31 March 2021	**442**	**4,102**	**3,687**	**1,604**	**12**	**120**	**9,967**
Net book value							
At 31 March 2019	546	472	814	2,361	129	49	4,371
At 31 March 2020	500	460	761	1,960	129	48	3,858
At 31 March 2021	**470**	**422**	**791**	**1,641**	**144**	**42**	**3,510**

IMPAIRMENT TESTING

The recoverable amount of goodwill and intangible assets is determined from value in use calculations.

The Group prepares cash flow forecasts derived from budgets and five-year business plans. For the purposes of impairment testing inflationary growth of 0% is assumed beyond this period. The sales growth relates to all key revenue streams of the business.

Rates have been determined based on the experience to date of operating these sales channels and previous experience of launching websites. A pre-tax discount factor of 7.4% *(2020: 6.8%)* was applied.

Other intangible assets have also been considered for impairment due to indicators of impairment being present in the form of losses and wider economic conditions. These assets are not considered to be impaired.

Increasing the pre-tax discount factor to 8.0% would result in an impairment charge against intangible assets of £169,000.

Amortisation and impairment charge

The amortisation charge of £1,121,000 *(2020: £1,191,000)* is recognised in profit and loss within depreciation and amortisation expenses. An impairment charge of nil *(2020: £nil)* was recognised during the year.

12. Investments – Company

	Shares in Subsidiary undertakings £000	Total £000
Cost		
Balance at 31 March 2019 and 31 March 2020	3,457	3,457
Acquisitions in the year	121	121
Balance at 31 March 2021	**3,578**	**3,578**

The Company owns the whole of the issued ordinary share capital of the following undertakings:

Subsidiary undertakings – wholly owned	Country of incorporation	Nature of business/status
Grafenia Operations Limited*	UK	Printing – trading
Works Manchester Limited*	UK	Sign Design, Manufacture and Installation – trading
ADD Signs Limited*	UK	Sign Design, Manufacture and Installation – dormant
Eggshell Solutions Limited*	UK	Printing and Design - dormant
Printing.com (UK Franchise) Limited*	UK	Partner contracts – dormant
Nettl UK Limited*	UK	Partner contracts – dormant
Grafenia Systems Limited*	UK	Licence agreements – dormant
Grafenia Technology Limited*	UK	Licence agreements – dormant
Creative Enterprise Support Limited*	UK	Enterprise Support – dormant
TemplateCloud Limited*	UK	Template Provision – dormant
W3P Limited*	UK	Software – dormant
Nettl of America LLC^	US	Franchising - trading
Grafenia France S.à.r.l.^	France	Partner contracts – trading

*** - Owned directly by Grafenia PLC**

^ - Owned by indirectly through ownership of the company's 100% subsidiary Grafenia Operations Limited

The registered address for all UK businesses is Focal Point, Third Avenue, Trafford Park, Manchester M17 1FG

13. INVENTORY

	Group 2021 £000	Group 2020 £000	**Company 2021 £000**	Company 2020 £000
Raw Materials	**444**	346	**-**	-
Total inventory	**444**	346	**-**	-

14. TRADE AND OTHER RECEIVABLES

Other receivables due from subsidiary companies do not have fixed repayment terms.

At 31 March 2021 trade receivables are shown net of an impairment allowance of £1,090,000 *(2020: £1,000,000).*

Trade and other receivables denominated in currencies other than sterling comprise £136,000 *(2020: £112,000)* of trade receivables.

	Group 2021 £000	Group 2020 £000	**Company 2021 £000**	Company 2020 £000
Trade receivables	**2,408**	2,743	**-**	-
Less provision for trade receivables	**(1,090)**	(1,000)	**-**	-
Trade receivables net	**1,318**	1,743	**-**	-
Other receivables due from subsidiary companies	**-**	-	**10,688**	9,981
Less provision for subsidiary companies	**-**	-	**(3,243)**	(3,243)
Total financial assets other than cash and cash equivalents classified at amortised cost	**1,318**	1,743	**7,445**	6,738
Corporation tax	**163**	354	**-**	-
Other receivables	**64**	53	**-**	-
Total other receivables	**227**	407	**-**	-
Total trade and other receivables	**1,545**	2,150	**7,445**	6,738

The carrying value of trade and other receivables classified at amortised cost approximates fair value.

	Under 6 months £000	Over 6 months £000	Total £000
Gross carrying amount	966	1,442	2,408
Loss provision	(90)	(1,000)	(1,090)
Net carrying amount	**876**	**442**	**1,318**

Trade and other receivables represent financial assets and are considered for impairment on an expected credit loss model. The Group continues to trade with the same customers and in the same marketplace and therefore the future expected credit losses have been considered in line with the past performance of the customers in the recovery of their receivables.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on factors affecting the Group's customers including the area of operations of those debtors and the market for the Group's products. The assessment of the expected credit risk for the year has not increased, when looking at the factors affecting the risk noted above. There are no trade receivables outside of credit terms without an impairment provision.

14. TRADE AND OTHER RECEIVABLES (CONTINUED)

Movements in the impairment allowance for trade receivables are as follows:

Impairment

Group	**As at 31 March 2021 £000**	As at 31 March 2020 £000
Balance at 1 April	**1,000**	412
Receivable written off during the year as uncollectible	**(70)**	-
Increase in impairment allowance	**160**	588
Balance at 31 March	**1,090**	1,000

Of the total impairment provision £79,000 *(2020: £72,000)* relates to Partners that have ceased trading.

There is no material difference between the net book value and the fair values of trade and other receivables due to their short-term nature.

Other classes of financial assets included within trade and other receivables do not contain impaired assets.

Of the net trade receivables £209,000 *(2020: £128,000)* was pledged as security for the invoice discounting facility. The Group is committed to underwrite any of the debts transferred and therefore continues to recognise the debts sold within trade receivables until the debtors repay or default. Since the trade receivables continue to be recognised, the business model of the Group is not affected. The proceeds from transferring the debts are included in other financial liabilities until the debts are collected or the Group makes good any losses incurred by the service provider.

Company

The Company did not have trade receivables at the year end. The intercompany receivables have been considered for impairment on an expected credit loss model and this has resulted in no additional provision in the year *(2020: £3,243,000).*

15. CASH AND CASH EQUIVALENTS

	Group 2021 £000	Group 2020 £000	**Company 2021 £000**	Company 2020 £000
Cash and cash equivalents	**2,740**	1,104	**2,266**	387

Cash and cash equivalents include cash in hand, deposits held at call with banks, cash in transit and other short term highly liquid investments. All cash is held in Sterling other than Euro of £117,000 *(2020: £138,000)* and USD of £30,000 *(2020: nil).*

16. TRADE AND OTHER PAYABLES

Current Liabilities	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Trade payables	**689**	1,326	**1**	7
Accruals	**358**	472	**83**	79
Other liabilities	**752**	362	**-**	-
Total financial liabilities, excluding 'non-current' loans and borrows classified as financial liabilities measured at amortised cost	**1,799**	2,160	**84**	86
Deferred income	**60**	143	**-**	-
Total trade and other payables	**1,859**	2,303	**84**	86

Trade payables denominated in currencies other than Sterling comprise £43,000 *(2020: £28,000)* denominated in Euro.

There is no material difference between the net book value and the fair values of current trade and other payables due to their short-term nature.

17. BORROWINGS

For more information on the Group and Company's exposure to interest rate, foreign currency risk and lease liabilities, see note 22.

Current Liabilities	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Invoice Financing	**209**	128	**-**	-
Lease liabilities	**602**	625	**-**	-
Loans	**120**	-	**120**	-
	931	753	**120**	-
Deferred consideration	**-**	147	**-**	147
Non-Current Liabilities				
Lease liabilities	**3,185**	3,483	**-**	-
Loans	**854**	-	**854**	-
Bearer Bonds	**2,110**	-	**2,110**	-
	6,149	3,483	**2,964**	-

The invoice discounting arrangement is secured upon the trade debtors to which the arrangement relates see note 14.

In July 2020 the Company issued bonds with a nominal value of £3,000,000, raising a net £2,010,000. The bonds are interest-free for three years and thereafter pay 6% of the nominal value, annually in arrears, until the company exercises its call option. The bond has initially been measured at fair value, which is considered to be the transaction price. Subsequently the liability is measured at amortised cost based on the expected cash flows over the expected life of the instrument.

In August 2020 an additional term loan for £1,000,000, repayable over six years, was secured through the Coronavirus Business Interruption Loan Scheme at an effective annual interest rate of 8.6%. At 31 March 2021 the liability was £974,000.

18. LEASES

All leases where the Group is a lessee are accounted for by recognising a right of use asset and a lease liability except for:

- Leases of low value assets;
- Leases with a term of 12 months or less.

IFRS 16 'Leases' was adopted on 1 April 2019 without restatement of comparative figures.

AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

RIGHT OF USE ASSETS	Land and buildings £000	Plant and equipment £000	Motor Vehicles £000	Total £000
Balance at 1 April 2019	1,999	2,503	56	4,558
Additions to right of use assets	-	49	-	49
Depreciation	(260)	(204)	(27)	(491)
Balance at 31 March 2020	1,739	2,348	29	4,116
Additions to right of use assets	-	95	-	95
Depreciation	(260)	(122)	(23)	(405)
Balance at 31 March 2021	**1,479**	**2,321**	**6**	**3,806**

LEASE LIABILITIES	Land and buildings £000	Plant and equipment £000	Motor Vehicles £000	Total £000
Balance at 1 April 2019	1,999	2,621	61	4,681
Additions to lease liabilities	-	49	-	49
Interest expense	120	193	4	317
Lease payments	(317)	(589)	(33)	(939)
Balance at 31 March 2020	1,802	2,274	32	4,108
Additions to lease liabilities	-	90	-	90
Interest expense	107	152	1	260
Lease payments	(340)	(304)	(27)	(671)
Balance at 31 March 2021	**1,569**	**2,212**	**6**	**3,787**

AMOUNTS RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT

	2021				2020			
	Land and buildings £000	**Plant and equipment £000**	**Motor Vehicles £000**	**Total £000**	Land and buildings £000	Plant and equipment £000	Motor Vehicles £000	Total £000
Depreciation charge on right of use assets	**260**	**122**	**23**	**405**	260	204	27	491
Interest on lease liabilities	**107**	**152**	**1**	**260**	120	193	4	317
Expenses related to low value and short-term leases	**20**	**3**	**-**	**23**	45	5	-	50
	387	**277**	**24**	**688**	425	402	31	858

LEASE LIABILITIES - MATURITY ANALYSIS OF CONTRACTUAL UNDISCOUNTED CASH FLOWS

	Carrying amount £000	**Contractual cash flows £000**	**6 months or less £000**	**6-12 months £000**	**1-2 years £000**	**2-5 years £000**	**More than 5 years £000**
31 March 2021	**3,787**	**4,643**	**390**	**441**	**865**	**2,216**	**731**
31 March 2020	4,108	5,532	441	447	865	2,410	1,369

19. EMPLOYEE BENEFITS

Share-based Save as You Earn (SAYE) Scheme

The Company launched a SAYE Scheme commencing 1 March 2017. The Scheme offered all employees the opportunity to participate in the future growth of the Company through the granting of share options.

The scheme requires employees to remain in employment of the business and commit to making a monthly payment of between £5 and £500 for 36 months. These instalments are paid into a savings account, operated by Royal Bank of Scotland plc, held independently from the Company.

Employees were invited to subscribe for options over ordinary shares of 1 penny each in the Company ("Ordinary Shares"). A first round of options, exercisable when all 36 payments had been made (between 1 March 2020 and 31 August 2020) have now lapsed.

A second round of invitations to participate were made on 20 July 2018 for options with a savings contract start date of 1 September 2018 and an exercise price of 11.5 pence per share, representing the closing mid-market price of the Ordinary Shares on the day prior to the invitation to participate. The options are exercisable when all 36 payments have been made, between 1 September 2021 and 28 February 2022.

A total of 52 employees elected to participate in the second SAYE Scheme offer and were granted options over of 1,505,719 Ordinary Shares on 14 August 2018, equating to 1.96 per cent of the then current total voting rights in the Company.

As at 31 March 2020, 34 employees with options granted in the second SAYE Scheme offer held options over 585,383 Ordinary Shares.

In the financial year to 31 March 2021 5 employees with options granted in the second SAYE Scheme offer left the Scheme, leaving 29 employees as at 31 March 2021 remaining.

The inputs used to value the options were:

	2018 Options
Expected life of options	3 Years
Volatility	40%
Dividend yield	0%
Risk free interest rate	1.1%

The total number of shares under option at the year end was 450,776 equating to 0.39% per cent of the current total voting rights in the Company.

20. SHARE CAPITAL AND RESERVES

SHARE CAPITAL – GROUP AND COMPANY

In thousands of shares	**Ordinary shares 2021**	Ordinary shares 2020
In issue at 1 April	**113,525**	84,685
Issued by the Company	**966**	28,840
Shares on the market at 31 March – fully paid	**114,491**	113,525

Allotted, called up and fully paid	**£000**	£000
114,490,828 (2020: 113,525,346) ordinary shares of £0.01 each	**1,145**	1,135
63 deferred shares of £0.10 each	**-**	-
	1,145	1,135

On 24 July 2019, the Group announced that it had raised approximately £4.01 million before expenses through a placing and subscription of 28,653,569 new ordinary shares of 1 penny each ("Placing Shares") at an issue price of 14 pence per share (the "Placing"). The placing was approved at the General Meeting on 12 August 2019.

On 26 September 2019 an employee, who was a good leaver, exercised options over 187,094 ordinary shares of £0.01 each at an issue price of £0.0775. The difference between the issue price and the nominal value being taken to the share premium account.

On 3 September 2020 the company announced the exercise of 46,450 options over ordinary shares of £0.01 each at an issue price of £0.0775. The difference between the issue price and the nominal value being taken into the share premium account.

On 14 December 2020 the company announced that employees who had elected to forgo a proportion of their remuneration in favour of the equivalent value in shares, based on a purchase price of £0.0775 each, were issued 919,032 ordinary shares of £0.01.

Dividends

During the year and prior year no dividends were proposed or paid. After the balance sheet date, the Board proposed no final dividend would be made *(2020: £nil)*.

21. SHARE PREMIUM

	Group and company	
	2021 £000	2020 £000
At 1 April	**7,801**	4,125
Premium on shares issued by the Company in the year	**65**	3,738
Share issue costs	**-**	(62)
At 31 March	**7,866**	7,801

22. FINANCIAL INSTRUMENTS

It is not the Group's policy to enter into financial derivatives for speculative or trading purposes. The financial instruments employed by the Group other than short term debtors and creditors are used to fund its operations and comprise cash, short term deposits and lease liabilities.

The Group's policy during the financial year ended 31 March 2021 and 31 March 2020 was to place the majority of its cash on short term deposit with its bankers and to finance the purchase of significant fixed assets through leases.

CREDIT RISK

Group

The Group's credit risk is primarily attributable to trade and other receivables both current and non-current. Trade receivables are included in the balance sheet net of doubtful receivables, estimated by the Group's management. The maximum credit risk in respect of the Group's and Company's financial assets at the year-end is represented by the balance outstanding on trade receivables and other receivables due from Partners as shown below.

During the year the Group has continued to use the Pay As You Go (PAYG) model to manage debtors and mitigate the credit risk through structured payments. This model ensures that in most instances total debts do not increase while continuing to serve the customer base. Repayment plans have been entered into separately for certain PAYG debtors and make up £304,000 (2020: £272,000) of total gross debtors. The Group retains the right to charge interest on overdue balances and re-call debts ahead of the payment plans agreed.

Interest rate risk

The Group and the Company do not have a material exposure to interest rates as most borrowings are at fixed interest rates.

Liquidity risk

The following are the contractual maturities of financial liabilities including estimated interest payments and excluding the impact of netting agreements:

31 March 2021

	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
Trade and other payables	**1,799**	**1,799**	**1,799**	**-**	**-**	**-**	**-**
Lease liabilities	**3,787**	**4,643**	**390**	**441**	**865**	**2,216**	**731**
Bearer Bonds*	**2,110**	**5,880**	**-**	**-**	**-**	**360**	**5,520**
Loans	**974**	**1,216**	**79**	**118**	**235**	**706**	**78**
Invoice financing	**209**	**209**	**209**	**-**	**-**	**-**	**-**
	8,879	**13,747**	**2,477**	**559**	**1,100**	**3,282**	**6,329**

31 March 2020

	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
Trade and other payables	2,160	2,160	2,160	-	-	-	-
Lease liabilities	4,108	5,532	441	447	865	2,410	1,369
Loan Notes and deferred consideration	147	147	102	45	-	-	-
Invoice financing	128	128	128	-	-	-	-
	6,543	7,967	2,831	492	865	2,410	1,369

*Based on the expected cash flows used to calculate the effective interest rate for amortised cost

All trade receivables are contractually due within 6 months.

22. FINANCIAL INSTRUMENTS (CONTINUED)

FOREIGN CURRENCY RISK

Group

The Group transacts with some business in foreign currency, principally Euro, and therefore incurs some transaction risk. The risk does not warrant hedging activity by the Group to defend against the impact of exchange rate movements.

The Group's exposure to foreign currency risk denominated in GBP was as follows:

	31 March 2021 Euro £000	**31 March 2021 GBP £000**	31 March 2020 Euro £000	31 March 2020 GBP £000
Trade and other receivables	**160**	**1,734**	144	2,453
Cash and cash equivalents	**117**	**2,623**	138	966
Trade other payables	**(186)**	**(1,471)**	(125)	(2,035)
	91	**2,886**	157	1,384

SENSITIVITY ANALYSIS

Where the Group operates in Europe both revenues and costs are in the local currency therefore the level of exchange risk is low. In the Eurozone the Group has a presence in France, Ireland and The Netherlands. In managing currency risks the Company and Group aims to reduce the impact of short-term fluctuations on the Company and Group's earnings. At 31 March 2021, it is estimated that a general increase of 25% in the value of the Euro would increase the Group's profit before tax by approximately £6,000 *(2020: £6,000)* with an equal adjustment to equity. A general increase of 25% in the value of the US Dollar would increase the Group's profit before tax by approximately £1,000 *(2020: £2,000)* with an equal adjustment to equity.

LEASE LIABILITIES / BANK LOANS

The fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The market rate of interest for lease liabilities is determined by reference to similar lease agreements.

23. CAPITAL COMMITMENTS

The Group and Company have no commitments to incur capital expenditure at the year end *(2020: £nil).*

24. RELATED PARTIES

The Company provides cross company guarantees in respect of the invoice discounting for £0.21m. In the year ended 31 March 2021 no dividends were received *(2020: nil)*.

Transactions with key management personnel

At the year end the Directors of the Company controlled 3.10 per cent of the voting shares of the Group.

On 5 April 2019 Conrad Bona transferred 149,545 ordinary shares from his personal holding to his individual savings account and 71,882 Ordinary Shares from his personal holding to his self-invested personal pension. These transactions resulted in a disposal of 795 Ordinary Shares.

On 27 November 2019 Peter Gunning purchased 100,000 Ordinary Shares increasing his holding to 1,725,000.

On 28 April 2020 the Company announced the launch of the Share Stake Scheme (the "Scheme") which allowed team members to elect to forgo a proportion of their remuneration receivable from the Company, in return for the receipt of new ordinary shares of one penny each in the Company ("New Ordinary Shares") to be issued at a price of 7.75p.

All of the Executive Directors elected to receive between 20% and 30% of their monthly net remuneration in New Ordinary Shares from 1 April 2020 for a period of seven months. Non Executive Directors elected to receive 100% of their fees in New Ordinary Shares for the same period. On 14 December 2020 the Company issued the following number of New Ordinary Shares to the Directors pursuant to the Scheme:

		New Ordinary Shares issued	Resulting shareholding	% holding upon Admission
Conrad Bona	Non-Executive Director	83,580	1,170,007	1.02%
Simon Barrell	Non-Executive Director	85,356	85,356	0.07%
Peter Gunning	Chief Executive Officer	231,352	1,965,352	1.71%
Iain Brown	Group Finance Director	84,208	84,208	0.07%
Gavin Cockerill	Chief Operating Officer	87,644	92,518	0.08%
Richard Lightfoot	Director & Company Secretary	77,156	152,156	0.13%

On 15 July 2020 the Company put in place a facility (the "Perpetual Bond Facility") to issue up to £50 million of perpetual bonds (the "Bearer bonds") and issued £3.0 million of the Bearer bonds, at nominal value, to investors, raising approximately £2.01 million before expenses. TGV Truffle Fund, an investment fund managed by Investmentaktiengesellschaft für langfristige Investoren TGV ("Langfrist"), subscribed for Bearer bonds to the value of £2.8 million at nominal value (the "Related Party Transaction"). The TGV Truffle Fund is a related party of the Company for the purposes of the AIM Rules as Langfrist holds more than 10 per cent. of the ordinary shares of the Company.

The compensation of the Directors, who are the key management personnel, is disclosed in note 5 and within the Directors Remuneration Report on pages 41-42.

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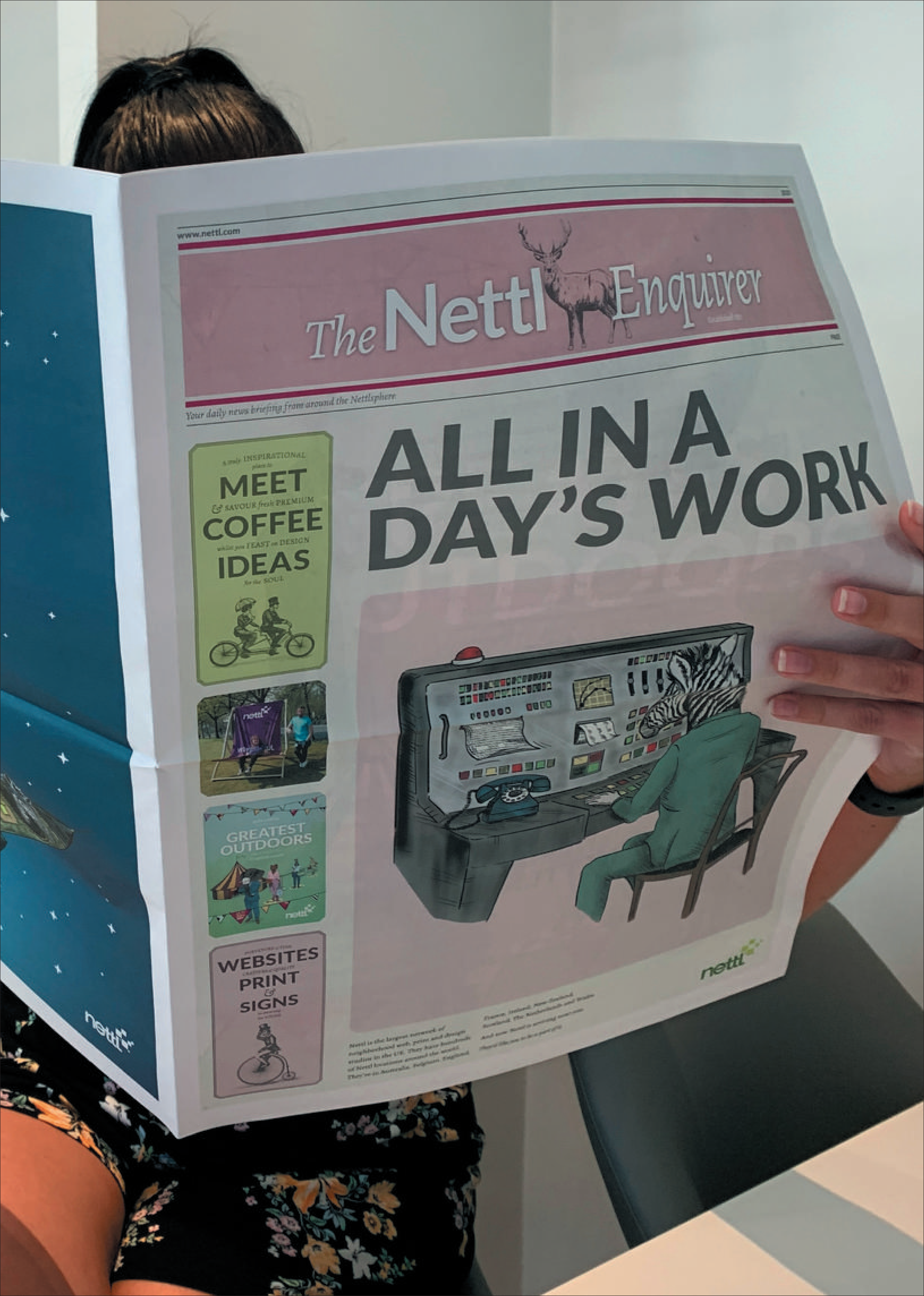
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