CLOUDCOCO GROUP PLC
ANNUAL REPORT 2020

2020

CLOUDCOCO
THE FUTURE STARTS NOW

"Since the change from Adept4 to CloudCoCo there have been huge improvements in customer and project satisfaction. When you know that you can class staff within your supplier as colleagues then the relationship is in a great place"

A CloudCoCo customer

Contents

Chairman’s statement

Following the acquisition of CloudCoCo Limited and re-brand as CloudCoCo Group plc (“CloudCoCo”, the “Group” or the “Company” together with its subsidiaries) towards the end of 2019, the new management team implemented a plan to address key areas for improvement and, despite the majority of the financial year taking place against a backdrop of persistent disruption and uncertainty caused by COVID-19, they have made significant progress on all fronts.

While the headline numbers remain modest, the swing from a negative to a positive Group Trading EBITDA[1] is indicative of the direction of travel. I am very encouraged by the performance, which is a direct result of the good work that has taken place behind the scenes – both operationally and culturally – and sets the tone for the future of the business. Ultimately, the success of the turnaround will be judged on CloudCoCo’s ability to deliver on a consistent basis over time, but the progress made in year one is cause for optimism.

Strategic progress

This time last year I outlined four key objectives for the financial year under review. These were: increase sales, reduce customer churn, reduce costs, and return to net cash generation. I am pleased with the significant progress against all these objectives, which is detailed further in the chief executive officer’s review.

Financing

Alongside the acquisition of CloudCoCo Limited, we put measures in place to improve the Group’s financing facilities. As part of this, our loan note debt was reduced from £5.0 million to £3.5 million, with interest being rolled up rather than paid. We also received a £0.5 million working capital facility, on which interest is payable on drawn down amounts.

People

On 31 March 2020, Mark Halpin was appointed as Chief Executive Officer. Mark, who founded CloudCoCo Limited in 2018 and had been responsible for the Group’s business development activities post-acquisition, replaced Andy Mills, with Andy remaining on the board as a non-executive director. This followed the appointment of Michael Lacey on 21 January 2020 as Chief Financial Officer. Michael replaced Jill Collighan, who had previously fulfilled the role on a part-time basis. Jill remains on the board as a non-executive director.

More widely, the fresh perspectives and approaches brought about by our new joiners from CloudCoCo Limited have breathed new life into the firm. Equally as impressive is the way our existing teams have embraced the change in mentality and new ways of working. Colleagues old and new across the business are now operating as one cohesive unit with shared values and ambitions, something Mark has actively promoted since his arrival, culminating in the introduction of ‘CoCo-One’, our colleague share options and continual improvements programme post-period.

Finally, we remind shareholders of our intention to appoint an additional Independent Non-executive Director as and when we find a suitable candidate.

Looking ahead

We recognise the pandemic brings a balance of risks and opportunities but, despite ongoing uncertainty, remain confident of the opportunities available to us , as well as in our ability to capitalise on them. With a combination of exceptional leadership, dedicated staff delivering a first-class service, and a clear growth strategy, we have made a strong start to the new financial year and are excited for what lies ahead.

Simon Duckworth

Non-Executive Chairman
1 March 2021

1 earnings before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share based-payments (see calculation on page 28)

Chief executive officer's review

Overview

CloudCoCo provides IT and communications solutions to UK businesses. Our skilled team of Microsoft, cloud, cyber security, connectivity, collaboration, and IT hardware experts work to deliver solutions that underpin and support our customers' activities. In doing so, we collaborate extensively with a range of partners, service providers, distributors and vendors. Our services enable business optimisation and transformation, team-working, cost savings, and streamlined workflows through a commitment to continued innovation.

Our target market spans mid-to-large organisations in both the commercial and public sectors, united by their desire to work smarter, innovate and be more efficient. Our transformative technology solutions provide customers with the necessary foundations to participate in a modern, resilient and secure digital-based economy.

CloudCoCo's mission has always been straightforward – we want to attract, engage and delight our customers by providing a highly responsive, talented team to solve business problems with technology. Our business can only move forward if we create long-lasting and meaningful relationships with our stakeholders – colleagues, customers and ecosystem partners.

Introduction

The focus since my appointment has been to address legacy issues in the former Adept4 business through a disciplined 'back to basics' approach, while positioning the business for long-term, sustainable growth. We are still only scratching the surface in terms of uncovering the opportunities available to us, and it will take time for us to realise our ambitions, but nonetheless I am proud of what we have been able to achieve together to date.

This time last year, the Chairman outlined four key objectives for the financial year under review. These were: increase sales, reduce customer churn, reduce costs, and return to net cash generation. As noted at the time, these were simple objectives, but it was clear that a return to basics was necessary to correct the course of the business and lay the foundations for future growth.

The progress we have made is all the more encouraging as 2020 was a period defined by significant uncertainty and disruption as a result of the pandemic. I am particularly pleased with the £0.5 million swing in Group Trading EBITDA, the increase in multi-year contracts and, most of all, the significant improvements to customer satisfaction and immediate call answer times.

Progress against FY20 objectives

Increasing sales

The business saw sales growth across its recurring services (5% increase) and product (31% increase) reporting segments, with professional services showing moderate growth despite COVID-19 related disruption.

Revenue	**12 months to 30 September 2020 £'000**	**12 months to 30 September** 2019 £'000
By operating segment		
Recurring services	**5,412**	5,153
Product	**1,839**	1,405
Professional services	**719**	699
Total revenue	**7,970**	**7,257**

Total contract value ("TCV") is an important performance indicator for the Group, and I am pleased to report it grew 97% to £5.2 million (FY19 at £2.7 million), with several new deals being signed on 36 to 60 month contracts. Improving the average length of our contracts from a base position of 12 months is crucial to realising our long-term growth ambitions. Doing so provides us with the additional security of contracted and committed revenues, as well as the scope to develop genuine partnerships with customers that should prove fruitful over time. In FY20 our average contract value length increased to 1.19 years (FY19: 1.06 years), with our forward pipeline closer to two years.

The solid performance of recurring services is a product of the hard work of our teams in addressing the customer satisfaction levels that had been diminishing under the Adept4 business. We are seeing particularly promising traction in our telephony business, both in terms of signing new customers and meeting growing demand from major systems integrators.

Chief executive's review (continued)

Our product segment also held up well, with a steady stream of monthly hardware orders driven in part by the transition to home working beginning in March. We also saw larger orders from boohoo and a major operator of franchised car dealerships as part of their three and five-year managed cyber security services contracts respectively.

Professional services saw the most pressure as a result of the national lockdown and associated restrictions on travel and social distancing. These measures made it difficult to either deliver or sign new work in certain periods. That we have achieved modest growth in our revenues across this segment despite these pressures is testament to the hard work, adaptability and resilience of our team.

In September, we announced the launch of our Secure Global Learning Access ("SGLA") solution for UK education institutions and their students. In partnership with Fortinet, a global leader in broad, integrated and automated cyber security solutions, we developed a scalable solution allowing students studying abroad to remotely access learning resources without compromising internet speed, security or contravening internet restriction laws. Post-period, we signed our first education client for the solution, which is now helping Chinese students learn remotely.

Towards the end of the period, we built the new plan to accelerate sales into the 'get fit' stage of the strategy. With the deep operational reset of the business now largely complete, we can focus more of our efforts on business development – signing new customers and deepening our relationships with existing ones. The sales function itself is now a much more robust and optimised operation. The new team has rapidly improved its organisation, reporting, discipline and accuracy, while ensuring resources are directed into the right places to win high-quality business.

<u>Reducing customer churn</u>

Delighting customers is a key component of CloudCoCo's mission and I am pleased to report the comprehensive review of our support function and the subsequent measures we have taken to improve it have largely been successful.

As is the case with all businesses of our nature, the pandemic impacted some of our customers more than others and some have been forced to reduce the services they take from us but the trend of year on year reduction in customer churn is clear. Overall satisfaction is now at a high level, reflected in the fact the majority of our largest customers have renewed with us, a key priority in the period.

<u>Reducing costs</u>

The comprehensive spending review undertaken across the Group's sites to reduce and optimise costs is now largely complete, resulting in a material reduction for the financial year and significant annualised savings that will continue to benefit the business going forwards. The process is ongoing as we look to make the business as efficient as possible and ultimately sustainable on the strength of its recurring margins.

<u>Returning to net cash generation</u>

The return to net cash generation continues to be on course, with the Group now profitable at a Group Trading EBITDA level. During the period, cash increased to £0.6 million (FY19: £0.3 million). Some of this increase is new debt, comprised of £0.1 million of MXC's working capital facility and a COVID-19 Bounce Back Loan of £50,000.

COVID-19

Our priority from the onset of the pandemic has always been the health and safety of our colleagues and stakeholders. In March 2020, we moved to home working, prior to the national lockdown announcement. Given the extraordinary set of circumstances prompted by the virus, we made sure to provide all staff with whatever they needed, including mental health support.

As lockdown eased, our offices were made safe and those that needed to work from them could do so. While the 'work from anywhere' mentality had already existed in parts of our mobile workforce, our staff are now fully equipped to work to their best abilities wherever they are.

The impact of the COVID-19 pandemic on the business has been mixed. Initially, as home working became commonplace across the country, we saw increased orders for our hardware and support to facilitate the transition. As the economic impact of the pandemic became clear, we began to experience industry-wide headwinds through delays in orders, including much of our pipeline of larger opportunities across all three of our service lines – including those linked to planned office moves which were unable to go ahead in line with original time scales but have shifted to FY21.

To ensure the long-term stability for the Group, we have taken steps to reduce our overheads and safeguard cash. During the period, we made use of the Government's furlough scheme and VAT deferral, as well as the previously mentioned COVID-19 Bounce Back Loan.

Chief executive officer's review (continued)

Market

CloudCoCo is a sector agnostic business, working across a range of industries and sectors to deliver digital transformation to our customers.

Within this, our expertise lies within four main areas of technology – cloud, collaboration, connectivity and cyber security, the business values of which have been amplified by the pandemic, with organisations rapidly pivoting to remote working practices to ensure business continuity.

Cloud
Hardware-based on-premise solutions continue to make up the majority of IT spend. Despite this, market research indicates cloud-based solutions are growing rapidly as a result of the business agility, transformation, scalability and innovation they enable. This trend towards cloud-based solutions predates COVID, but the widespread move to remote working necessitated by the pandemic has had a significant, positive impact on the rate of adoption.

As a Tier 1 Microsoft Cloud Solution Provider (CSP) with Gold Cloud Platform Competency, CloudCoCo is able to support organisations throughout their journey of cloud adoption – through strategy, planning, readiness, migration, management and governance.

Collaboration
With a dramatic increase in the monthly user base of Microsoft's Teams collaboration platform and with remote working set to endure for the foreseeable future, there is a significant opportunity for managed services providers like CloudCoCo to lead the way in enabling organisations to swiftly adopt, actively use and fully realise the user experience and business productivity outcomes offered by cloud-based unified communications and collaboration solutions.

Connectivity
Organisations now need to connect a more distributed community of users with a more dispersed mix of corporate data centre applications, public cloud environments, SaaS services and data storage resources. CloudCoCo can support organisations with hybrid IT and multi-cloud environments across many hundreds of locations and thousands of users, delivering various forms of modern connectivity such as high speed internet, WiFi and piping.

Cyber security
Cyber security has been propelled to the top of board agendas in recent years and as the world becomes more digitised, perpetrators become more sophisticated in their approaches, and high-profile attacks make headline news. As organisations move more of their information assets online, the incentive for criminals to access them increases, as does the financial and reputational cost of a breach.

The acceleration of the shift to remote working following the outbreak of COVID-19 has exponentially increased the cyber threat faced by organisations. Devices and data have been moved outside of the relative safety of an organisation's networks, making them more vulnerable to unauthorised access and theft. To counter this new threat environment, we expect an uptick in the adoption of new and innovative security solutions.

While CloudCoCo is well-positioned to benefit from these long-term trends in those four areas, looking ahead to 2021, market conditions will continue to be affected by COVID-19 uncertainty, with some companies reluctant to commit to the longer-term.

That said, the technology sector has been exceptionally resilient, and our pipeline remains healthy. The past year has demonstrated there remains a strong appetite among a wide range of organisations to seek to enhance their competitive advantage through the application of technology.

Partnership ecosystem

Relationships with our world-class vendors and innovative technology partners have developed over the past year, fortifying an already key competitive advantage for the Group.

We have rationalised our partners within our four main areas of technology while deepening relationships with firms such as Microsoft, Gamma, Zen, City Fibre, Lenovo, Fortinet and Mitel. In the coming year, we will look to continue in a similar vein, focusing on areas such as cloud-based business-class communications through Mitel and dynamic cloud security through Fortinet. Post-period, Lenovo awarded us 'Gold' status in its national partner programme, and we are now one of the first partners to be listed on the AWS marketplace for our Fortinet cloud security capability, demonstrating the growing recognition and appreciation of the work we do.

Chief executive officer's review (continued)

FY21 objectives

With tangible progress against all the objectives laid out by the Chairman a year ago, the Group now enters what is referred to internally as the 'get fit' stage of its recovery strategy, with a focus on landing new contracts and improving the quality of our revenues while maintaining the highest standards of service. With this in mind, our core objectives evolve into the following:

1. **Accelerate sales**

   With much of the operational heavy-lifting complete and the sales function now fully re-calibrated and re-energised, the next step is to ramp up business development and keep the top line moving along its current trajectory.

2. **Maintain excellent support levels**

   Customer support has improved dramatically in the past year following a comprehensive review of working practices, reorganisation and the introduction of a strict set of new performance metrics. With multi-year contracts a key strategic focus for the business, maintaining leading levels of customer satisfaction is critical to our continued success.

3. **Maintain cost vigilance**

   In the 'get well' phase, management left no stone unturned in scrutinising every cost to ensure there is no unnecessary expenditure throughout the business. This is an ongoing process – as we continue to grow, we will continue to monitor every penny spent to ensure the business is running as efficiently as possible.

4. **Improve cash position**

   It follows that if we are able to deliver against the first three objectives, our cash position will continue to steadily improve.

Taking a longer-term view, I am excited to further develop the Group, improving our offering for our existing customers and winning new ones, while bringing our talented colleagues – now share option holders – even closer together.

I am immensely grateful to all our colleagues for their efforts and continued support, and to our customers who have supported us and shown patience as we have transitioned to CloudCoCo Group plc. The willingness of both our new joiners from CloudCoCo Limited and existing teams to collaborate and drive us forward has been fantastic to see, and there is a real sense our colleagues are now operating together as one team with a set of shared values and ambitions. We look forward this year to making CloudCoCo an even better place to work. I would also like to express my gratitude to our partners, who have backed my vision from the start and continue to stand shoulder to shoulder with us on a daily basis.

Current trading and outlook

We have made a strong start to FY21 at a sales and Trading Group EBITDA level. Management accounts for the first 4 months of FY21 show Trading Group EBITDA already ahead of the £261k achieved in the full 12 months of FY20. The early signs of success in the 'get fit' phase of our recovery are clear, with several multi-year contracts having been signed post-period with both new and renewing customers.

Key among these were renewals with some of our largest accounts, including Baywater Healthcare on an 18-month term, a major university on a 24-month term. and Vantage Motor Group on a 36-month term.

New business wins of note include contracts to help a leading law firm, and a major English council successfully transition to home working through the delivery of our IT hardware and telephony solutions.

We are also seeing the benefits of cost reductions starting to filter through, despite the impact of further lockdowns.

The key is now for us to continue to attract and engage with the considerable number of organisations looking to digitally transform their operations. I am confident our ability to produce uniquely collaborative offerings through our ecosystem of partners and solve complex problems for our customers will continue to differentiate us as we move forwards.

Mark Halpin

Chief Executive Officer
1 March 2021

Financial review

Acquisition of CloudCoCo Limited and Refinancing

On 21 October 2019, the Group acquired the entire share capital of CloudCoCo Limited ("Acquisition"). The consideration for the acquisition was satisfied through the issue of 218,160,586 ordinary shares in the Company which represented approximately 49.0% of the enlarged share capital. The shares were issued at the mid-market closing price of 3.3 pence, representing a total value of £7.2 million at completion.

On completion of the acquisition, a number of actions were taken to refinance the Group ("Refinancing")

- £1.5 million of the £5.0m loan notes held by the Business Growth Fund ("BGF") were waived and cancelled by BGF, reducing the Company's liability to £3.5 million.
- BGF's 50 million options were repriced to 0.35 pence. BGF exercised all of its options in October 2019.
- MXC Guernsey Limited ("MXCG"), a wholly owned subsidiary of MXC Capital Limited ("MXC"), which now holds 15.2% of the shares in the Company, purchased the remaining £3.5 million loan notes from BGF.
- The terms of the loan notes were restructured and the loan notes now carry a coupon of 12%, compounded per annum, rolled up and payable only at the end of the term.
- The term of the loan notes has been extended to October 2024 with no repayment due until that date unless the Company chooses to repay early.
- At the same time, MXCG extended a £0.5 million, 2 year, working capital facility to the Company with interest charged at a rate of 12% per annum on amounts drawn down.
- MXC cancelled the warrants it held over 5% of the then issued and to be issued share capital of the Company.

On 29 November 2019, the Company's name was changed from Adept4 plc to CloudCoCo Group plc.

Revenue and gross margin

Group revenue for the year to 30 September 2020 grew by 10% to £8.0 million (FY19 £7.3 million) with increased sales in each of the three revenue streams of recurring services, product and professional services.

This produced a gross profit of £3.4 million (FY19: £3.7 million) representing a gross margin of 42.9% (FY19: 51.4%). The reduction in margin predominantly relates to the recurring services segment, as explained below.

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

Recurring services

Recurring services relate to the provision of continuing IT services which have an ongoing billing and support element.

Revenues from recurring services were £5.4 million (FY19: £5.2 million), generating a gross profit of £2.5 million (FY19: £2.9 million) and a gross margin of 47% (FY19: 56%). The reduction in the gross margin is due to a different mix of services provided between in house and third party resources.

The proportion of our total revenue derived from recurring services continued to be high at 68% (FY19: 71%).

Product sales

Product sales are the resale of solutions (hardware and software) from leading technology vendors.

Revenues from product sales were higher than those in FY19 at £1.8 million (FY9: £1.4 million) due to hardware sales in advance of multi-year support contracts and assisting customers who were transitioning to home working. Product sales generated a gross profit of £0.4 million (FY19: £0.3 million) and gross margin of 23% (FY19: 20%).

Professional services

Professional services comprises the provision of highly skilled resource to consult, design, install, configure and integrate IT technologies.

Revenues from professional services were £0.7 million (FY19: £0.7 million) generating a gross profit of £0.5 million (FY19: £0.6 million) as permanent employee costs are included in overheads. In the year to 30 September 2020 a greater proportion of projects used third party contractors, resulting in a fall in margin to 65% (FY19: 79%).

Financial review (continued)

Operating performance, costs and EBITDA

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

Excluding plc costs of £0.5 million (FY19: £0.4 million) ,our trading overheads during the year fell by 18% to £3.3 million (FY19: £4.0 million), of which staff costs comprised 81% (FY19: 84%). Following the COVID-19 epidemic, various measures were taken in the second half of FY20 to protect the business including temporary pay cuts and use of the Government furlough scheme. In addition some early successes from the “get well“ initiatives improved trading performance. During the year the Group returned to modest levels of monthly Trading Group EBITDA profit and resulted in a Trading Group EBITDA of £0.3million (FY19: loss of £0.2 million).

The adoption of IFRS 16 Leases has resulted in an increase to Trading Group EBITDA of £68,000. Further details can be found in note 1.2.

Exceptional Items

During the year we incurred certain costs which were not directly related to the generation of revenue and trading profits. Given their size and nature, they have been classified as exceptional items within the Consolidated Income Statement. These items totalled £0.5 million of which £0.4 million relates to CloudCoCo Limited acquisition costs and £0.1 million relates to integration and reorganisation costs. In the year to 30 September 2019, exceptional items were £3.2 million of which £3.0 million related to the impairment of goodwill and other intangible assets on previous acquisitions and £0.2 million related to integration and reorganisation costs.

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

During the year the Group incurred net finance costs of £0.5 million (FY19: £0.6 million). £0.4 million of this was interest on loan notes that was rolled up and not paid as a cash cost. The Group incurred non-cash costs including total amortisation and depreciation charges of £1.8 million (FY19: £1.0 million). After accounting for a deferred tax credit of £0.3 million (2019: £0.4 million) the reported loss for the year after tax was £2.7 million compared to a loss after tax for the year to 30 September 2019 of £5.2 million after recording an impairment charge of £3.0 million.

Statement of Financial Position and cash

At 30 September 2019, following the £3.0 million impairment charge in respect of its goodwill and intangible assets, the Group had net liabilities of £1.1 million.

In October 2019 there was a Refinancing of the business and further details are set out above. As a result of this Refinancing, together with the Acquisition, the Group has now returned to a positive net asset position of £5.0 million. Cash balances at 30 September 2020 were £0.6 million (FY19: £0.3 million) whilst net debt was £3.0 million (FY19: £4.0 million). Net debt comprises cash balances of £0.6 million less the loan notes and rolled up interest of £3.4 million together with £0.2 million of lease liabilities, £0.1 million of the MXCG working capital facility and a COVID-19 Bounce Back Loan of some £50,000.

The Group had a net cash inflow during the year of £0.3 million (FY19 cash outflow of £1.1 million). The main components of the cash inflow in the year were as follows:

- cash generated from operating activities excluding costs of CloudCoCo Limited acquisition of £0.5 million
- costs of £0.4 million acquiring CloudCoCo Limited
- monies received for the issue of shares to BGF of £0.2 million and;
- draw down of MXCG working capital facility of £0.1 million

Further details on the financial position of the Group are contained in the going concern section of the Directors Report on page 19.

Risks and risk management

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

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

The Directors have established an organisational structure with clear operating procedures, lines of responsibility and delegated authority. There are clear procedures for capital investment appraisal and approval, contract risk appraisal and financial reporting within a comprehensive financial planning and accounting framework.

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

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

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

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

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

Covid-19

The global pandemic has created economic uncertainty for the whole world and there is a risk of an impact on the Group's business environment and wider economy.

To date the Covid-19 pandemic has not had any material impact on the Group's ability to operate. The Group is likely to see delays in sales cycles for certain services and delays in project delivery as customers assess the impact of Covid-19 on their own businesses.

The Group also recognises that the pandemic has thrown up some business opportunities as customers transition to home working and avail themselves of the products and services of the Group.

The Group was quick to facilitate home working for our staff and have provided uninterrupted support for our customers.

The Group is extremely grateful to staff who took temporary pay reductions and the Group has availed itself of the Job Retention Scheme "furlough" and deferred VAT and PAYE/NIC payments.

The Group carefully monitors guidance from health professionals and the government and will update its business and operational plans as the situation develops.

Brexit

The UK left the EU on 31 January 2020 and the transition period ended on 31 December 2020 with a trade deal between the UK and the EU which will avoid the imposition of duties and tariffs on the movement of goods. The Group purchases and provides the majority of its goods and services within the UK. However, some vendors reside outside the UK and it is possible that prices may be affected by exchange rate changes. In addition, there is some uncertainty around the likely impact of Brexit on businesses and the UK economy.

The Group carefully monitors price risk and will ensure customer quotes enable prices to reflect exchange rate changes.

Reputational risk

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

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

Risks and risk management (continued)

Commercial risk

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

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

Technology risk

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

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

Key resources

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

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

Contractual liabilities

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

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

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

Regulatory compliance

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

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

Malicious activity and data protection

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

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

Acquisitions

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

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

Directors’ Duties - Section 172 Statement

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

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

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

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

<u>Having regard to maintaining high standards of business conduct</u>
The Directors recognise the importance of operating a robust corporate governance framework and our Corporate Governance Report on pages 13 to 16 demonstrates how we comply with the Quoted Companies Alliance Corporate Governance Code (“the QCA Code”).

<u>Having regard to the interests of the employees</u>
The Group strives to create a diverse and inclusive working environment where every employee feels welcome and can do their best work. We believe in the benefits of diversity and the importance of bringing a wide range of skills, experience and perspectives into our business. The Directors continually work with senior management to promote the Group’s values. A prime concern for the Group during the year was the health and safety of our employees in response to the COVID-19 pandemic and a decision was taken to move to home working ahead of Government guidance and to provide necessary equipment to facilitate home working . The CEO regularly briefs employees on developments in the business and we encourage suggestions from employees on how the improvements to the business and working environment can be addressed.

<u>Having regard to the fostering of relationships with customers and suppliers</u>

Customers
We aim to delight our customers and this sentiment is at the heart of everything we do. We engage with our customers to understand and exceed their expectations. Updates and feedback from customers as well as operational statistics are regularly reported to the Board. Key achievements in the year were improved support help desk answering times and reduced number of open customer support tickets.

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

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

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

Strategic Report
This Strategic Report on pages 2 to 11 was approved by the Board of Directors on 1 March 2021 and signed on behalf of the Board of Directors by:

Mark Halpin
Chief Executive Officer

Board of Directors

Simon Duckworth OBE DL

Non-Executive Chairman

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

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

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

Jill Collighan

Non-Executive Director

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

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

Andy Mills

Non-Executive Director

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

Andy joined the Board on 21 October 2019.

Mark Halpin

Chief Executive Officer

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

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

Mike Lacey

Chief Financial Officer

Mike Lacey is a chartered accountant with over 30 years of experience working in senior finance roles across a variety of sectors. Mike's career started at Ernst & Young followed by roles at AMEC plc, Kwik Save Group plc and the Co-operative Group then as Finance Director of Calyx UK Limited. Between 2013 and 2017 Mike was Finance Director at Character World Limited and has also run his own consultancy business and has worked with clients ranging from SME's to £750m turnover companies on projects such as turnarounds, fundraising and business sales.

Mike joined the Board as full time Chief Financial Officer on 21 January 2020.

Corporate governance report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Corporate governance report (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Board members and their relevant experience and skills are detailed on page 12. The Non-Executive Chairman believes that, as a whole, the Board has a suitable mix of skills and competencies covering all essential disciplines bringing a balanced perspective that is beneficial both strategically and operationally and will enable the Company to deliver its strategy.

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

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

Departure from the code

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

Corporate governance report (continued)

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

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

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

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

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

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

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

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

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

The Board recognises that core values provide a framework which influences every level of the Group. Under guidance from the Board, the Chief Executive Officer takes the lead in developing and promoting the corporate culture and ensures that employees understand the business values and behaviours required to ensure that we perform as one team to deliver our business goals and maintain good employee relations.

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

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

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

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

On behalf of the Board, the Chief Executive Officer has overall responsibility for managing the day to day operations of the Company and the Board as a whole is responsible for monitoring performance against the Company's goals and objectives. The individual Board members' specific responsibilities, contributions and skills are set out on page 12.

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

Departure from the code

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

Corporate governance report (continued)

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

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

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

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

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

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

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

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

Remuneration report

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

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

The Committee meets at least once a year.

Remuneration of Executive Directors
The fees paid to the Executive Directors are determined by the Board. Mark Halpin has a service contract with the Company terminable on six-months notice. Mike Lacey has a service contract with the Company terminable on three-months notice.

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

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

	Fees and salaries		Other benefits		Totals	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Non-Executive						
S Duckworth	**32**	36	**—**	—	**32**	36
T Black (resigned 31 March 2020)	**16**	32	**—**	—	**16**	32
J Collighan[1]	**38**	72	**—**	—	**38**	72
A Mills (in office 21 October 2019 to 30 September 2020)	**13**	—	**—**	—	**13**	—
Executive						
M Halpin (in office 31 March 2020 to 30 September 2020)[2]	**107**	—	**4**	—	**111**	—
M Lacey (in office 21 January 2020 to 30 September 2020)	**60**	—	**3**	—	**63**	—
Total	**266**	140	**7**	—	**273**	140

1 Jill Collighan's services are secured under a secondment agreement with MXC Advisory Limited. All fees are paid to MXC Advisory Limited and the agreement contains a notice provision of 3 months.

2. fees in relation to M Halpin include the period before joining the Board

Directors' interests in shares
The interests of the Directors in the Ordinary Shares of the Company at 30 September 2020 together with their interests as of 1 March 2021 were as follows:

Name of Director	1 March 2021 Number	**30 September 2020 Number**
S Duckworth	9,500,000	8,500,000
A Mills	32,724,088	32,724,088
M Halpin	140,713,578	140,713,578
M Lacey	810,000	810,000

MXC Advisory Limited, who provides the services of Jill Collighan, is a wholly owned subsidiary of MXC Capital Limited, which had a 15.2% holding in the shares of the Company at 30 September 2020.

Remuneration report (continued)

Directors' interests in share options
No Directors held options over the Ordinary Shares of the Company or any other share incentives at 30 September 2020. Two directors of the Company's subsidiaries have been granted options over the shares of the Company as follows:

	1 October 2019	Granted in the year	Lapsed during the year	**30 September 2020**	Exercise price	Date when Exercisable	Expiry date
D Griffiths (resigned 20 Nov 19)	3,800,000	—	(3,800,000)	**—**	—	—	—
D Giddens	207,692	—	—	**207,692**	—	24 Mar 18	24 Mar 25
D Giddens	1,135,000	—	—	**1,135,000**	9.0p	28 Sep 19	28 Sep 26

All of the 1,342,692 options in place at 30 September 2020 have been granted under the terms of the Company's approved EMI share option scheme.

By order of the Board

Simon Duckworth

Chairman, Remuneration Committee
1 March 2021

Directors' report

The Directors present their Annual Report, together with the financial statements and Auditor's report, for the year ended 30 September 2020 for CloudCoCo Group plc, company number 05259846.

Principal activities
The principal activity of the Group is the provision of IT and communications solutions UK businesses. Further information can be found in the Strategic Report on pages 2 to 11.

Corporate governance
The statement on corporate governance on pages 13 to16 is included in the Directors' Report by way of reference.

Results and dividends
The Group's loss on ordinary activities after taxation was £2.7 million (FY19: loss of £5.2 million). The audited financial statements of the Group are set out on pages 13 to 16. The Directors do not propose a dividend for the year ended 30 September 2020 (FY19: £nil).

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

Going concern
The Group had positive net assets at 30 September 2020 totalling £5.0 million compared to net liabilities at the end of FY19 of £1.1 million. The acquisition of CloudCoCo Limited during FY20 and the Refinancing referred to in the Financial Review have returned the Group to a positive net assets position due to the issue of share capital of £7.2 million at completion and a refinancing of the loan notes of £1.3 million. The Group had an undrawn working capital facility at 30 September 2020 of £0.4m which formally matures in October 2021 but which the lender has confirmed that it will extend to March 2022.

The Group's progress towards its key objectives of increasing sales, reducing customer churn, reducing costs, and returning to net cash generation is described in the Strategic Report. Despite significant uncertainty and disruption as a result of the pandemic, the Group reported an improvement in underlying profitability as measured by Group Trading EBITDA (2020: £0.3m; 2019: £(0.2)m) and generated cash from operating activities, excluding costs of acquiring CloudCoCo Limited, of £0.4m.

The Strategic Report on pages 9 to 10 describes the risks associated with the Group's activities which are reviewed by the Directors on a regular basis. The key operational risk the Group faces is the general economic outlook including the continuing uncertainty caused by the pandemic. Although COVID-19 has not a material impact on the Group's ability to operate, it has resulted in delays in sales cycles for certain services and delays in project delivery as customers assess the impact of COVID-19 on their own businesses. The Group responded by taking action to conserve cash including temporary pay cuts, use of the Government's furlough and VAT deferral schemes and a COVID-19 Bounce Back Loan.

The Directors have reviewed the forecast sales growth, budgets and cash projections for the period to March 2022. The Directors have performed sensitivity analysis which reflects uncertainty in assumptions regarding growth in services and customer projects and considered that the Group expects to have sufficient cash resources provided that the MXCG working capital facility is made available beyond October 2021. At the request of the Directors, MXC has provided confirmation that it will provide continuing financial support including the extension of the existing facility until March 2022.

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

Directors
The present membership of the Board is as follows:

Simon Duckworth, Non-Executive Chairman
Jill Collighan, Non-Executive Director
Andy Mills, Non-Executive Director (appointed 21 October 2019)
Mark Halpin, Chief Executive Officer (appointed 31 March 2020)
Mike Lacey, Chief Financial Officer (appointed 21 January 2020)

In addition, Tom Black served as a Non-Executive Director till his resignation on 31 March 2020.

Mark Halpin and Jill Collighan will be offering themselves for re-election at the forthcoming Annual General Meeting.

The biographical details of the current Directors of the Company are given on page 12.

Details of Directors' interests in the Company's shares, service contracts and remuneration are set out in the Directors' Remuneration Report on pages 17 and 18.

Directors' report (continued)

Directors (continued)

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

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

Share warrant instruments and share options
There were no new share warrants or share options issued during the year. The options previously held by BGF were exercised during the year and the warrants held by MXC were cancelled in the year. Details of the existing share options remaining in force can be found in Note 7 to the consolidated financial statements.

Post-balance sheet events
There are no post-balance sheet events to report.

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

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

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

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

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

Annual General Meeting
The Annual General Meeting will be held on 31 March 2021 at 1:00 p.m.

Notice of the Annual General Meeting will be sent to shareholders on 8 March 2021.

Independent Auditor
Nexia, Smith & Williamson Audit Limited resigned as auditors during the year and RSM UK Audit LLP were appointed as auditors. RSM UK Audit LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

By order of the Board

Darron Giddens

Company Secretary
1 March 2021

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare Group and company financial statements for each financial year. The Directors have elected under company law and the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the Directors have elected under company law to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

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

In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

Opinion

We have audited the financial statements of CloudCoCo Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 September 2020 which comprise the consolidated income statement, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 . The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2020 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 SME 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

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

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

Summary of our audit approach

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

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

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 statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of identifiable intangible assets acquired in business combinations	
Key audit matter description	*(Refer to page 33 regarding the accounting policy in respect of business combinations, page 37 regarding critical accounting judgements and estimates and note 22 relating to the acquisition of CloudCoCo Limited).* During the year the group completed the acquisition of the entire share capital of CloudCoCo Limited. The group's accounting policies require the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. Goodwill represents the excess of acquisition costs over the fair value of the group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. The directors identified intangible assets relating to brands and customer lists of £0.5m and £1.7m respectively, and goodwill of £5.4m. The measurement of intangible assets is complex and requires use of judgement in the selection of an appropriate technique and related inputs.
How the matter was addressed in the audit	We engaged valuations specialists to review the design of the models that were used to measure the intangible assets arising as part of the business combination. We tested the clerical accuracy of the models. We compared the models to the group's accounting policies to check that the policies had been consistently applied. We challenged the assumptions used in the models including discount rates and growth rates and compared them with those used in the assessment of impairment of goodwill and intangible assets for consistency. We reviewed the financial projections that had been assessed by the Directors at the time of the acquisition and compared them to those used in the measurement of intangible assets to check that they were consistent. We tested the sensitivity of the values of the brands and customer assets to changes in assumptions. We tested the measurement of the cost of the acquisition by reference to the market price of the parent company's shares issued in consideration for the shares of CloudCoCo Limited.

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

Carrying value of goodwill and other intangible assets

Key audit matter description	*(Refer to page 35 regarding the accounting policy in respect of impairment testing, page 37 regarding critical accounting judgements and estimates and note 10 relating to the carrying value of goodwill and intangible assets and the assessment of impairment at 30 September 2020).* The carrying values of goodwill and other intangible assets at 30 September 2020 are £5.4m and £5.0m respectively. The carrying value of goodwill is required to be tested for impairment on annual basis and other intangible assets when there are indicators of impairment. The measurement of recoverable amount requires use of judgement and estimates regarding future cash flows and selection of an appropriate discount rate.
How the matter was addressed in the audit	We tested the design and clerical accuracy of the models used to measure the recoverable amount of goodwill and intangible assets as described in note 10 to ensure that they were consistent with the requirements of the financial reporting framework, IAS 36. We challenged the assumptions used in the models by: • Comparing the cash flow forecasts to the actual performance for the year ended 30 September 2020; • Comparing the assumptions to those used in the assessment of impairment in the previous year to identify changes and obtained explanation from management; • Comparing the forecasts to actual performance observed since the year end; • Performing sensitivity analysis to test the impact on the reported headroom of changes in cash flows and discount rates; • Comparing the recoverable amount calculated by management to the market capitalisation of the company; and • Using valuations specialists to review the pre-tax discount rate for reasonableness. We used the knowledge gained in performing other audit procedures to assess whether there were any indicators of impairment that had not been identified by management. We assessed whether the testing of impairment was performed at the lowest level of assets that are capable of generating cash flows independently.

Refinancing of loan notes

Key audit matter description	*(Refer to page 36 regarding the accounting policy in respect of financial liabilities, page 37 regarding critical accounting judgements and estimates and note 19 relating to the loan notes).* During the year, the group completed a refinancing of its loan notes which included the extinguishment of £1.5m of loan notes, exercise of share options by the former loan note holder, BGF, and revision of terms by the new loan note holder, MXC Guernsey Limited as described in note 19. The treatment of changes in financial instruments in accordance with the financial reporting framework is complex in nature and requires judgement in determining the substance of the transactions.
How the matter was addressed in the audit	We read the agreements relating to the refinancing of the loan notes and formed an understanding of the substance of the transactions. We assessed management's proposed treatment of the transactions in accordance with the financial reporting framework. We reviewed the disclosures in the financial statements.

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

Going concern	
Key audit matter description	*(Refer to page 32 regarding the accounting policy in respect of going concern.)* It is the responsibility of the directors to form an opinion on whether the group and parent company are a going concern. The risk is that a material uncertainty may exist that casts doubt on the group's or parent company's ability to continue as a going concern for a period of at least twelve months from the date when the financial statements are authorised for issue and such uncertainties have not been adequately disclosed.
How the matter was addressed in the audit	We have: • Assessed the cash flow forecasts, which cover a period to March 2022, together with expected headroom over the facilities in place and challenged the assumptions used by management; • Identified the key assumptions supporting the forecasts, comparing them to historical revenues and costs incurred where appropriate; • Assessed the quality of management forecasting by comparing forecasts from prior years to actual outcomes; • Considered the actual cash outflows that had occurred since the date the forecasts were prepared to determine whether the actual cashflows were in line with those budgeted; • Tested the sensitivity of the available headroom to plausible changes in key assumptions; • Tested the arithmetic integrity of the cash flow forecasts; • Reviewed correspondence relating to the financial support, including extension of the working capital facility, provided by MXC Capital Limited and assessed the ability and intention of MXC Capital Limited to provide that support; and • Reviewed the disclosures within the financial statements in respect of the processes carried out by the Directors in considering the use of the going concern basis and the financial resources available to the group.

Impairment of intercompany receivables (parent company only)	
Key audit matter description	*(Refer to page 56 regarding the critical accounting judgements and estimates and note 8 to the parent company financial statements regarding the carrying value of amounts receivable from subsidiary undertakings).* At 30 September 2020 the parent company has receivable balances due from subsidiary undertakings with a carrying value of £10m. The Group reported operating losses of £2.5m and therefore there is a risk that the balances may not be recoverable. The assessment of the recoverability of these balances requires estimation of the cash flows that will be generated by the subsidiaries.
How the matter was addressed in the audit	We reviewed the assessment of the recoverability of the balances due from subsidiary undertakings. We challenged the assumptions used in the assessment by comparing them to those used in the discounted cash flow model used by management to assess the carrying value of goodwill and intangible assets to ensure that they were consistent. We performed sensitivity analysis to assess the impact of changes in assumptions regarding cash flows and discount rates on the excess of cash flows over the balances due from subsidiary undertakings.

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:

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

	Group	Parent company
Overall materiality	£148,000 (2019: £145,150) Overall materiality for the group changed from £159,000 to £148,000 during the course of the audit as the initial measure was based on forecast results.	£147,999 (2019: £108,150) Overall materiality for the group changed from £158,999 to £147,999 during the course of the audit as the initial measure was based on forecast results.
Basis for determining overall materiality	5% of loss before tax	2.5% of net assets
Rationale for benchmark applied	We believe that loss before tax is an important measure of performance and is consistent with the expectations of the users of the financial statements of an AIM listed entity.	We believe that net assets is an important measure in assessing the performance of the parent company. In the previous year, overall materiality was calculated by reference to total assets.
Performance materiality	£111,000 (2019: £108,860)	£111,000 (2019: £81,112)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £7,400 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £7,400 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 4 components, all of which are based in the UK. Full scope audit procedures were performed for all entities. The coverage achieved by our full scope audit procedures was 100% of revenue, 100% of loss before tax and 100% of net assets. No work was undertaken by component auditors.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

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 21 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.

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

Use of our report

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

Graham Bond FCA (Senior Statutory Auditor)

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

Chartered Accountants

20 Chapel St

Liverpool

L3 9AG

2 March 2021

Consolidated income statement
for the year ended 30 September 2020

	Note	2020 £'000	2019 £'000
Continuing operations			
Revenue	3	**7,970**	**7,257**
Cost of sales		**(4,554)**	**(3,530)**
Gross profit		**3,416**	**3,727**
Other income		**97**	**-**
Administrative expenses		**(5,963)**	**(8,716)**
Trading Group EBITDA [1] – non statutory measure		**261**	**(235)**
Amortisation of intangible assets	10	**(1,623)**	**(907)**
Plc costs		**(461)**	**(421)**
Depreciation	11	**(113)**	**(100)**
Exceptional item – impairment of goodwill and intangible assets	4	**-**	**(3,021)**
Exceptional items – other	4	**(540)**	**(234)**
Share-based payments	7	**26**	**(71)**
Operating loss	5	**(2,450)**	**(4,989)**
Interest receivable	6	**1**	**3**
Interest payable	6	**(518)**	**(602)**
Net finance expense		**(517)**	**(599)**
Loss before taxation		**(2,967)**	**(5,588)**
Taxation	8	**288**	**438**
Loss and total comprehensive loss for the year attributable to owners of the parent		**(2,679)**	**(5,150)**
Loss per share			
Basic and fully diluted	9	**(0.56)p**	**(2.27)p**

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

The accompanying accounting policies and notes on pages 32 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of financial position
as at 30 September 2020

	Note	**30 September 2020 £'000**	30 September 2019 £'000
Non-current assets			
Intangible assets	10	**10,359**	4,394
Property, plant and equipment	11	**221**	62
Total non-current assets		**10,580**	4,456
Current assets			
Inventories	12	**31**	32
Trade and other receivables	13	**1,856**	1,489
Cash and cash equivalents	14	**588**	311
Total current assets		**2,475**	1,832
Total assets		**13,055**	6,288
Current liabilities			
Trade and other payables	15	**(2,465)**	(1,664)
Contract liabilities	16	**(565)**	(513)
Borrowings	17	**(104)**	**-**
Lease liability	18	**(122)**	(32)
Total current liabilities		**(3,256)**	(2,209)
Non-current liabilities			
Contract liabilities	16	**(364)**	(94)
Borrowings	17	**(3,458)**	(4,270)
Lease liability	18	**(61)**	(16)
Deferred tax liability	20	**(940)**	(810)
Total non-current liabilities		**(4,823)**	(5,190)
Total liabilities		**(8,079)**	(7,399)
Net assets / (liabilities)		**4,976**	(1,111)
Equity			
Share capital		**4,952**	2,271
Share premium account		**17,630**	11,337
Capital redemption reserve		**6,489**	6,489
Merger reserve		**1,997**	1,997
Other reserve		**122**	1,720
Retained earnings		**(26,214)**	(24,925)
Total equity	21	**4,976**	(1,111)

These financial statements were approved and authorised for issue by the Board of Directors on 1 March 2021.
Signed on behalf of the Board of Directors by

Michael Lacey

Director

The accompanying accounting policies and notes on pages 32 to 52 form an integral part of these financial statements.

Consolidated statement of changes in equity
for the year ended 30 September 2020

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2018	**2,271**	**11,337**	**6,489**	**1,997**	**1,649**	**(19,775)**	**3,968**
Loss and total comprehensive loss for the period	—	—	—	—	—	(5,150)	(5,150)
Transactions with owners							
Share-based payments	—	—	—	—	71	—	71
Total transactions with owners	—	—	—	—	71	—	71
Total movements	—	—	—	—	71	(5,150)	(5,079)
Equity at 30 September 2019	**2,271**	**11,337**	**6,489**	**1,997**	**1,720**	**(24,925)**	**(1,111)**

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

The accompanying accounting policies and notes on pages 32 to 52 form an integral part of these financial statements

Consolidated statement of cash flows

for the year ended 30 September 2020

	2020 £'000	2019 £'000
Cash flows from operating activities		
Loss before taxation	**(2,967)**	(5,588)
Adjustments for:		
Depreciation – owned assets	**36**	100
Depreciation – right of use assets	**77**	—
Amortisation	**1,623**	907
Share-based payments	**(26)**	71
Net finance expense	**517**	599
Costs relating to acquisition of CloudCoCo Limited	**435**	—
Settlement of warranty claim	—	600
Impairment of goodwill	—	3,021
(Increase) / decrease in trade and other receivables	**(65)**	811
Decrease/ (increase) in inventories	**1**	(6)
Increase / (decrease) in trade payables, accruals and deferred income	**866**	(1,145)
Cash flows from taxation	**—**	—
Net cash from / (used in) operating activities before acquisition costs	**497**	(630)
Costs relating to acquisition of CloudCoCo Limited	**(435)**	—
Net cash from (used in) operating activities	**62**	(630)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(37)**	(16)
Acquisition of CloudCoCo Limited, net of cash acquired	**157**	—
Purchase of intangible assets	**—**	(40)
Interest received	**1**	3
Net cash from / (used in) investing activities	**121**	(53)
Cash flows from financing activities		
Proceeds from exercise of BGF share options	**175**	—
Receipt of loan funds from MXCG	**100**	—
Receipt of loan funds from COVID-19 Bounce Back Loan	**50**	—
Payment of lease liabilities	**(183)**	(30)
Interest paid	**(48)**	(403)
Net cash from / (used in) financing activities	**94**	(433)
Net increase / (decrease) in cash	**277**	(1,116)
Cash at bank and in hand at beginning of period	**311**	1,427
Cash at bank and in hand at end of period	**588**	311
Comprising:		
Cash at bank and in hand	**588**	311

Notes to the consolidated financial statements

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

1.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRSs) as applied in accordance with provisions of the Companies Act 2006. The measurement bases and principal accounting policies of the Group are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

Going concern
The Group had positive net assets at 30 September 2020 totalling £5.0 million compared to net liabilities at the end of FY19 of £1.1 million. The acquisition of CloudCoCo Limited during FY20 and the Refinancing referred to in the Financial Review have returned the Group to a positive net assets position due to the issue of share capital of £7.2 million at completion and a refinancing of the loan notes of £1.3 million. The Group had an undrawn working capital facility at 30 September 2020 of £0.4m which formally matures in October 2021 but which the lender has confirmed that it will extend to March 2022.

The Group's progress towards its key objectives of increasing sales, reducing customer churn, reducing costs, and returning to net cash generation is described in the Strategic Report. Despite significant uncertainty and disruption as a result of the pandemic, the Group reported an improvement in underlying profitability as measured by Group Trading EBITDA (2020: £0.3m; 2019: £(0.2)m) and generated cash from operating activities, excluding costs of acquiring CloudCoCo Limited, of £0.4m.

The Strategic Report on pages 9 to 10 describes the risks associated with the Group's activities which are reviewed by the Directors on a regular basis. The key operational risk the Group faces is the general economic outlook including the continuing uncertainty caused by the pandemic. Although COVID-19 has not a material impact on the Group's ability to operate, it has resulted in delays in sales cycles for certain services and delays in project delivery as customers assess the impact of COVID-19 on their own businesses. The Group responded by taking action to conserve cash including temporary pay cuts, use of the Government's furlough and VAT deferral schemes and a COVID-19 Bounce Back Loan.

The Directors have reviewed the forecast sales growth, budgets and cash projections for the period to March 2022. The Directors have performed sensitivity analysis which reflects uncertainty in assumptions regarding growth in services and customer projects and considered that the Group expects to have sufficient cash resources provided that the MXCG working capital facility is made available beyond October 2021. At the request of the Directors, MXC has provided confirmation that it will provide continuing financial support including the extension of the existing facility until March 2022.

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

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

During the year ended 30 September 2020 the Group adopted the following new financial reporting standards for the first time:

- Annual Improvements to IFRS Standards 2015-17
- Cycle amendments to IFRS 3 Business Combinations
- IAS 12 Income Taxes
- IAS 23 Borrowing Costs
- IFRS 11 Joint Arrangements
- IFRS 16 Leases

With the exception of IFRS 16 Leases, none of the new standards had a material impact on the Group.

IFRS 16 Leases has replaced IAS 17 Leases and the new standard became effective for periods commencing after 1 January 2019. The Group has adopted IFRS 16 Leases using the modified retrospective basis with recognition of a transitional adjustment as described below on the date of initial application being 1 October 2019 and therefore comparatives have not been restated.

IFRS 16 Leases introduces a single lessee accounting model where the Group now recognises a lease liability and a right of use asset for all leases, except for those with short lives. On adoption of IFRS 16 Leases the Group recognised a right of use asset in respect of the lease of office space at 7750 Daresbury Business Park, Warrington. As permitted under the practical expedients contained in the standard, no adjustment was made in respect of leases with a remaining term of less than 12 months. The right of use asset is then depreciated over the remaining term of the lease.

Notes to the consolidated financial statements (continued)

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

On adoption of IFRS16 the Group recognised a lease liability in relation to that office lease which had previously been classified as an operating lease under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments discounted using the Group's average incremental borrowing rate.

On the transfer to IFRS 16 adjustments were made to create a right of use asset of £148,000 and a lease liability of £148,000.

The adoption of IFRS 16 in the year to 30 September 2020 resulted in a reduction in operating expenses excluding depreciation of £68,000, and an increase in depreciation costs of £58,000 and an increase in interest in interest costs of £28,000.

There is no overall impact of cash flows or retained earnings from implementing IFRS 16, however trading EBITDA has improved by £68,000.

A reconciliation between the accounting treatment IAS 17 Leases and IFRS 16 Leases at 1 October 2019 is contained in note 18.

1.3 New standards and interpretations of existing standards that are not yet effective and have not been adopted early by the Group

A number of other new standards, amendments to standards and interpretations are effective for the annual period commencing on or after 1 October 2020,.None of these are expected to have a material impact on the Group,

- Amendment to IFRS3 Definition of a Business
- Amendments to IAS11 Construction Contracts and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- Conceptual Framework Amendments to References to the Conceptual Framework in IFRS Standards

2. Principal accounting policies

a) Basis of consolidation

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

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

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

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

b) Goodwill

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

c) Revenue and revenue recognition

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

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

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

Notes to the consolidated financial statements (continued)

c) Revenue and revenue recognition (continued)

Sale of goods (hardware and software)

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

Rendering of services

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

In recognising Recurring Services revenues, the Group recognises revenue equally over the duration of the contractual term. Third-party costs (where relevant) relating to these services are, likewise, spread equally over the duration of the contractual term

d) Foreign currencies

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

e) Property, plant and equipment

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

f) Right of use assets

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

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

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

g) Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the Consolidated Income Statement on page 28.

h) Exceptional items

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

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

Note 4 contains more detail on exceptional items.

i) Depreciation

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

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

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

j) Intangible assets

Intangible assets mainly comprise the fair value of customer bases and other identifiable assets acquired which are not included on the balance sheets of the acquired companies. A fair value calculation is carried out based on evaluating the net recurring income stream from each type of intangible asset. Intangible assets are initially recognised at fair value, and are subsequently carried at this fair value, less accumulated amortisation and impairment. The following items were identified as part of the acquisitions of entities by the Group and were still owned at 30 September 2020:

Notes to the consolidated financial statements (continued)

j) Intangible assets (continued)

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

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

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

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

Impairment reviews are carried out using multi-year cash flow projections from the approved budgets of the Group. These are discounted using a discount rate specific to each CGU, based on the internal rate of return calculated over the useful economic life of the asset. Forecast cash flows beyond 5 years assume steady growth at no more than the long-term average growth rate for the United Kingdom The internal rate of return for each CGU reflects the time value of money and the nature and risks of the CGU. Where the CGU contains a customer base, then this asset is discounted further using an annual customer retention ratio to reflect the assumed diminution of revenues from a customer base over time. The customer retention ratio used is measured separately by CGU and is calculated as the higher of the actual customer base retention ratio experienced or 80% per annum. Cash flows are estimated over the expected useful life of the asset. The term and customer retention ratio is attributed separately to each asset and is assessed by the Board at the time of acquisition.

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

l) Leases

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

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

The following accounting policies were applied to leases in the year ended 30 September 2019:
Management applies judgement in considering the substance of the lease agreement. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of profit or loss on a straight-line basis over the lease term. Where the Group has substantially all the risks and rewards of ownership, the assets are capitalised as property, plant and equipment and depreciated over the shorter of their useful economic life and the lease term. The resulting lease obligations are included in borrowings net of finance charges. Interest costs on finance leases are charged to the consolidated statement of profit or loss so as to produce a constant periodic rate of charge on the remaining balance of the liability for each period.

m) Inventories and work in progress

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

n) Taxation

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

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

Notes to the consolidated financial statements (continued)

n) Taxation (continued)

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

o) Financial assets

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

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

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

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

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

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

p) Cash and cash equivalents

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

q) Financial liabilities

Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest-related charges are recognised as an expense in "finance costs" in the Consolidated Income Statement. Loan notes are raised for support of long-term funding of the Group's operations. The financial liability arising on the loan notes is carried at amortised cost. In the financial statements at 30 September 2019, loan notes were treated as a compound instrument as if the options granted to the lender represented an option to convert loan notes into equity.

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

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

r) Issued share capital

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

s) Employee benefits

Share-based payment – equity-settled

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

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

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

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

Notes to the consolidated financial statements (continued)

t) Pension

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

u) Government Grants

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

v) Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Group's accounting policies

The allocation of fair values to the tangible assets and the identification and valuation of intangible assets requires judgement in the selection of appropriate valuation techniques and inputs and affect the goodwill and the assignment of that to each cash generating unit, recognised in respect of the acquisitions (note 22). Estimates and judgements around the allocation of fair values are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Judgement was applied in the current year to determine the substance of the agreements with the BGF relating to the cancellation of loan notes and the modification and exercise of share options. As described in note 19, the Directors concluded that the exercise of options was in consideration for the extinguishment of the loan notes as though the loan note instrument had been a convertible instrument. As a result, the transaction resulted in a no gain or loss being recognised in the income statement which would otherwise have been the case had the agreements been judged to be unrelated.

Key sources of estimation uncertainty

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

Intangible assets

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

Determining whether intangible assets, including goodwill, are impaired requires an estimate of whether there is an impairment indicator. The key estimates for the carrying value of intangible assets are the cash flows associated with the intangible assets and the WACC. Each of the intangible assets held by the Group is measured regularly to ensure that they generate discounted positive cash flows.

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

3. Segment reporting

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

The CODM assess profit performance principally through adjusted profit measures consistent with those disclosed in the Annual Report and Accounts. The Board believes that the Group comprises a single reporting segment, being the provision of IT managed services to customers. Whilst the CODM reviews the revenue streams and related gross profits of three categories separately (Recurring Services, Product and Professional Services), the operating costs and operating asset base used to derive these revenue streams are the same for all three categories and are presented as such in the Group's internal reporting. Accordingly, the segmental analysis below is therefore shown at a revenue and gross profit level in line with the CODM's internal assessment based on the following reportable operating segments:

Recurring Services	-	This segment comprises the provision of continuing IT services which have an ongoing billing and support element.
Product	-	This segment comprises the resale of solutions (hardware and software) from leading technology vendors.
Professional Services	-	This segment comprises the provision of highly skilled resource to consult, design, install, configure and integrate IT technologies.

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

Notes to the consolidated financial statements (continued)

3.1 Analysis of continuing results

All revenues from continuing operations are derived from customers within the UK. This analysis is consistent with that used internally by the CODM and, in the opinion of the Board, reflects the nature of the revenue.

3.1.1 Revenue

	2020 £'000	2019 £'000
Recurring Services	**5,412**	5,153
Product	**1,839**	1,405
Professional Services	**719**	699
Total Revenue	**7,970**	7,257

3.1.2 Revenue

	2020 £'000	2019 £'000
Recognised at a point in time	**2,558**	2,104
Recognised over time	**5,412**	5,153
Total Revenue	**7,970**	7,257

4. Exceptional Items

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

	2020 £'000	2019 £'000
Costs relating to the acquisition of CloudCoCo Limited	**(435)**	—
Impairment of goodwill and intangible assets (Note 11)	**—**	(3,021)
Integration and restructure costs	**(105)**	(226)
Foreign exchange rate variances	**—**	(8)
Exceptional items	**(540)**	(3,255)

The Board has assessed the carrying value of the Group's goodwill and intangible assets and following an assessment of current budgets and forecasts for the Group, no impairment charge (FY19: £3.0m) has been made.

5. Operating loss

	2020 £'000	2019 £'000
Operating loss is stated after charging:		
Depreciation of owned assets	**36**	100
Depreciation of right of use assets	**77**	—
Short life lease expense	**50**	—
Operating lease rentals		
– Buildings	**—**	106
Amortisation of intangibles	**1,623**	907
Auditor's remuneration:		
– Audit of parent company	**20**	—
– Audit of subsidiary companies	**50**	—
Predecessor auditor's remuneration		
– Audit of parent company	**—**	22
– Audit of subsidiary companies	**—**	42
– Audit costs of relating to prior year	**25**	20
– Other audit-related assurance services	**6**	7
– Tax compliance services	**17**	10

Notes to the consolidated financial statements (continued)

6. Finance income and finance costs

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

	2020 £'000	2019 £'000
Interest income resulting from short-term bank deposits	**1**	3
Finance income	**1**	3
Interest expense resulting from:		
Lease liabilities	**27**	3
MXC rolling working capital facility	**9**	—
Loan note interest	**420**	400
Effective interest on liability element of the loan notes	**62**	199
Finance costs	**518**	602

Loan note interest includes £398,000 (FY19: £nil) which is accrued and is only payable when the loan notes are repaid in 2024 or earlier if the Group chooses.

7. Employee costs

7.1 Directors and employees

At 30 September 2020, the Group employed 51 staff (2019: 51). The average number of staff employed by the Group during the financial year amounted to 51 (2019: 68) as follows:

	2020	2019
Management staff	**11**	13
Operational staff	**40**	55
Total	**51**	68

Employee numbers are stated including Directors.

7.2 Employee remuneration including directors

	2020 £'000	2019 £'000
Wages and salaries	**2,320**	2,949
Pension contributions	**56**	69
Social security costs	**249**	292
Total	**2,625**	3,310

There were £4,000 of pension contributions payable at the reporting date (2019: £10,000).

7.3 Directors

Details of individual Directors' emoluments for the year (including employer's National Insurance ("NI") contributions) are as follows:

	Fees and salaries		Employer's NI contributions		Other benefits		Totals (including employer's NI)	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Non-Executive								
S Duckworth	**32**	36	**3**	4	—	—	**35**	40
T Black (resigned 31 March 2020)	**16**	32	**2**	3	—	—	**18**	35
J Colllighan[1]	**38**	72	**—**	—	—	—	**38**	72
A Mills (in office 21 October 2019 to 30 September 2020)	**13**	—	**—**	—	**—**	—	**13**	—
Executive								
M Halpin (in office 31 March 2020 30 September 2020)[2]	**107**	—	**14**	—	**4**	—	**125**	—
M Lacey (in office 21 January 2020 to 30 September 2020)	**60**	—	**7**	—	**3**	—	**70**	—
Total	**266**	140	**26**	7	**7**	—	**299**	147

Other benefits include £3,000 (FY19: £nil) in respect of pension contributions for M Halpin and £2,000 (FY19: £nil) in respect of pension contributions for M Lacey.

1. fees in relation to J Colllighan are paid to MXC Capital Advisory Limited (see Note 7).
2. fees in relation to M Halpin include the period before joining the Board

Notes to the consolidated financial statements (continued)

7.4 Share-based payments

(i) Share option plans for employees

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

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

	2020 Number	**2020 Weighted average exercise price**	**2019 Number**	**2019 Weighted average exercise price**
Outstanding at 1 October	**8,547,692**	**5.22p**	9,849,358	6.08p
Granted	**—**	**—**	—	—
Lapsed	**(3,800,000)**	**1.00p**	(1,301,666)	11.73p
Outstanding at 30 September	**4,747,692**	**8.6p**	8,547,692	5.22p

During the year no share options were granted (2019: nil) and 3,800,000 share options lapsed in accordance with the share issue documents. At 30 September 2020, the Company had granted the following outstanding share options:

Date granted	**Balance 2020**	Movement during the year	Balance 2019	Exercise price	Dates exercisable	Remaining contractual life (months)
25 March 2015	**207,692**	—	207,692	—	25 March 2018–25 March 2025	54
28 September 2016	**4,540,000**	—	4,540,000	9.00p	28 September 2019–28 September 2026	72
31 March 2017	**—**	(3,800,000)	3,800,000	1.00p	1 April 2022–31 March 2027	78
Total	**4,747,692**	(3,800,000)	8,547,692	5.22p		

(ii) Non-employee share options and warrants

In consideration of the issue of £5m loan notes on 26 May 2016 by the BGF, they were granted an option to subscribe for 50,000,000 Ordinary Shares of 1p each in the capital of the Company at a price of 6p per Ordinary Share. The fair value of these options is linked to the treatment of the loan notes and valued in accordance with Note 19.

In consideration of its agreement to partially underwrite the placing of £0.86m on 14 May 2015, MXC Capital Limited was granted warrants over 5% of the share capital of the Company.

The BGF options were modified and exercised at a price of 0.35p in consideration for the extinguishment of loan notes of £1.5m and the MXC warrants were cancelled as part of the refinancing following the acquisition of CloudCoCo Limited on 21 October 2019. Further details are given in the Director's Report.

The total non-employee share options and warrants in issue at 30 September 2020 are:

Date granted	**Balance 2020**	Movement during the year	Balance 2019	Exercise price	Dates exercisable	Remaining contractual life (months)
28 April 2015	**—**	(13,853,255)	13,853,255	**—**	**—**	**—**
26 May 2016	**—**	(50,000,000)	50,000,000	**—**	**—**	**—**
Total	**—**	(63,853,255	63,853,255	**—**	**—**	**—**

The total share-based payments expense included in the Consolidated Income Statement is:

	2020 £'000	2019 £'000
Share options	**(26)**	16
Share warrants	**—**	55
Total	**(26)**	71

Post year end, the Company granted options ("Employee Options") over a total of 55,103,500 ordinary shares of 1 pence each in the Company ("Ordinary Shares") to members of the senior management team and other employees pursuant to the Company's EMI Share Option Scheme ("Scheme"). A further 4,000,000 options over Ordinary Shares have been granted pursuant to the Company's Unapproved Share Option Scheme (together with Employee Options, "Options").

The Options amount to approximately 11.9% of the Company's current non-diluted issued share capital and are issued within the parameters of the proposed incentive scheme detailed at the time of the Company's acquisition of CloudCoCo Limited in October 2019.

Notes to the consolidated financial statements (continued)

7.4 Share-based payments (continued)

The grant of Options is part of the Company's new 'CoCo-One' initiative in which all qualifying colleagues are awarded share options to encourage shared ownership and enhance retention, recruitment and incentivisation across the business. The Options will only accrue value in the event the Company's share price increases, thereby aligning the interests of recipients with those of shareholders.

Of the 55,103,500 Employee Options, 22,000,000 were granted to certain of the Company's Persons Discharging Managerial Responsibilities as follows (representing the relevant individuals' total interests in Employee Options):

	Options Granted
Mark Halpin – Chief Executive Officer	**7,500,000**
Michael Lacey – Chief Financial Officer	**7,500,000**
Darron Giddens – Company Secretary	**7,000,000**

The Options, which have an exercise price of 1 penny per Ordinary Share, can be exercised at any time between 20 November 2022 (or earlier if there is a qualifying transaction) and 20 November 2030.

The Options vest subject to various performance criteria and can only be exercised subject to the Company's share price being greater than 2 pence per Ordinary Share at the date of exercise.

The Company had previously granted options over a total of 4,747,692 Ordinary Shares pursuant to the Scheme. The relevant employees agreed to waive these options prior to the grant of the Employee Options as described above, such that the Options are the only share options in issue .

8. Income tax

	2020 £'000	2019 £'000
Current tax		
UK corporation tax for the period at 19% (2019: 19%)	**—**	—
Deferred tax		
Deferred tax credit on intangible assets	**(288)**	(438)
Total tax credit for the year	**(288)**	(438)

The relationship between expected tax expense based on the standard rate of tax in the UK of 19% (2019: 19%) and the tax expense actually recognised in the Consolidated Income Statement can be reconciled as follows:

	2020 £'000	2019 £'000
Loss for the year before tax:	**(2,967)**	(5,588)
Tax rate	**19%**	19%
Expected tax credit	**(564)**	(1,062)
Adjusted for:		
Credits not chargeable to tax	**—**	—
Non-deductible expenses	**91**	641
Movement in unprovided deferred tax relating to losses	**191**	287
Change in tax rates	**—**	(13)
Short-term timing differences	**(6)**	(291)
	(288)	(438)

The Group has unrecognised deferred tax assets in respect of tax losses carried forward totalling £1,522,000 (2019: £1,290,000).

9. Loss per share

	2020 £'000	2019 £'000
Loss attributable to ordinary shareholders	**(2,679)**	(5,150)

	Number	Number
Weighted average number of Ordinary Shares in issue, basic and diluted	**478,427,400**	227,065,100
Basic and diluted loss per share	**(0.56)p**	(2.27)p

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

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

Intangible assets	Goodwill £'000	IT, billing and website systems £'000	Brand £'000	Customer lists £'000	Total £'000
Cost					
At 1 October 2018	**4,447**	**142**	**1,157**	**7,580**	**13,326**
Additions	—	40	—	—	40
At 1 October 2019	4,447	182	1,157	7,580	13,366
Business combinations (note 22)	5,388	—	500	1,700	7,588
At 30 September 2020	**9,835**	**182**	**1,657**	**9,280**	**20,954**
Accumulated amortisation					
At 1 October 2018	**—**	**(27)**	**(265)**	**(1,908)**	**(2,200)**
Charge for the year	—	(20)	(115)	(772)	(907)
At 1 October 2019	—	(47)	(380)	(2,680)	(3,107)
Charge for the year	—	(111)	(598)	(914)	(1,623)
At 30 September 2020	**—**	**(158)**	**(978)**	**(3,594)**	**(4,730)**
Impairment					
At 1 October 2018	**(2,844)**	**—**	**—**	**—**	**(2,844)**
Charge in the year	(1,603)	—	(225)	(1,193)	(3,021)
At 1 October 2019	(4,447)	—	(225)	(1,193)	(5,865)
Charge in the year	—	—	—	—	—
At 30 September 2020	**(4,447)**	**—**	**(225)**	**(1,193)**	**(5,865)**
Carrying amount					
At 30 September 2020	**5,388**	**24**	**454**	**4,493**	**10,359**
At 30 September 2019	—	135	552	3,707	4,394
Average remaining amortisation period		**0.8 years**	**9.1 years**	**6.7 years**	**6.9 years**

Intangible assets require three conditions to be fulfilled:

i. identifiable – either separable or arising from a contractual or other legal right;
ii. can be controlled; and
iii. future economic benefits exist.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Goodwill is allocated to those assets that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows. The Group operates as a single business and there is a single CGU. Each year, management compares the resulting cash flow projections using a value in use approach to assess the recoverable amount of the CGU to the carrying value of goodwill. Any material variance in this calculation results in an impairment charge to the Consolidated Income Statement.

The calculations used to compute cash flows for the CGU level are based on the Group's budget, growth rates, WACC and other known variables. The calculations are sensitive to movements in both WACC and the revenue growth projections. The current effective unsecured pre-tax borrowing rate is calculated at 12% per annum (FY19:15%) and the revenue growth rate is 5% per annum (FY:19 5%) for 5 years and a terminal growth rate of 2% (FY19: 2%) per annum. Sensitivities have been run on cash flow forecasts for the CGU. Management is satisfied that the key assumptions of revenue and EBITDA growth rates should be achievable and that reasonably possible changes to those key assumptions would not lead to the carrying amount exceeding the recoverable amount. Sensitivity analyses have been performed and the table below summarises the effects of changing certain key assumptions and the resultant excess (or shortfall) of discounted cash flows against the aggregate of goodwill and intangible assets.

Notes to the consolidated financial statements (continued)

10. Intangible assets (continued)

Sensitivity analysis

	CloudCoCo Group plc
Excess of recoverable amount over carrying value:	
Base case – headroom	2,786
Discount rate increased by 1% - resulting headroom	1,653
Revenues growth rate reduced by 1% per annum – resulting headroom	1,632

Base case calculations highlight that the impairment review is sensitive to the discount rate and growth rate. Given the Group's value proposition is centred around generating monthly recurring fees for IT and communication solutions, the Directors are satisfied that the Group's objectives are to maximise the cash flows generated through the sales of Recurring Services.

In determining whether intangible assets including goodwill were impaired, the Directors estimated the discounted future cash flows associated with the intangible assets over a ten-year period, using a discount rate equivalent to the WACC. The Directors also considered the impact of the customer notices of termination received and the improvement in Trading EBITDA during the year as indicators that there is no impairment of intangible assets. In the year to 30 September 2019 goodwill and other intangibles were impaired by £3.0m and this cost was recognised in administrative expenses in the Consolidated Income Statement.

11. Property, plant and equipment

	Right of Use Assets £'000	IT equipment £'000	Fixtures, fittings and leasehold improvements £'000	Total £'000
Cost of assets				
At 1 October 2018	—-	**356**	**148**	504
Additions	—-	**23**	—	**23**
Disposals	—-	(125)	**(54)**	(179)
At 30 September 2019	—-	**254**	**94**	**348**
Right of use assets recognised on transition to IFRS16	257	(56)	(53)	148
Additions	28	42	—	70
Business combinations (note 22)	51	3	—	54
At 30 September 2020	**336**	**243**	**41**	**620**
Depreciation				
At 30 September 2018	—-	231	127	358
Charge for the year	—-	80	20	100
Disposals	—-	(118)	(54)	(172)
At 30 September 2019	—-	**193**	**93**	**286**
Right of use assets recognised on transition to IFRS16	87	(34)	(53)	—
Charge for the year	77	35	1	113
At 30 September 2020	**164**	**194**	**41**	**399**
Net book value				
At 30 September 2020	**172**	**49**	—	**221**
At 30 September 2019	—-	61	1	62

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The net book value of right of use assets at 30 September 2020 comprised:

	Land & buildings £'000	IT equipment £'000	Motor Vehicles £'000	Total £'000
At 30 September 2020	**98**	**3**	**7**	**121**

12. Inventories

	2020 £'000	2019 £'000
Consumables	**21**	14
Work in progress	**10**	18
Inventories	**31**	32

Notes to the consolidated financial statements (continued)

13. Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	**985**	951
Other Debtors	**6**	3
Contract assets	**101**	143
Prepayments	**764**	392
Trade and other receivables	**1,856**	1,489

Having adopted in 2019, IFRS 9, the Group now reviews the amount of credit loss associated with its trade receivables based on forward looking estimates that take into account current and forecast credit conditions as opposed to relying on past historical default rates. In adopting IFRS 9 the Group has applied the Simplified Approach applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customers with different credit risk profiles and current and forecast trading conditions.

At 30 September 2020 trade receivables amounting to £260,000 (2019: £215,000) were past due but not impaired. The age of trade receivables not impaired is as follows:

	2020 £'000	2019 £'000
Less than 30 days	**548**	582
30–59 days	**178**	154
60–89 days	**68**	140
90–119 days	**41**	39
120+ days	**150**	36
	985	951

Trade receivables at the reporting date comprise amounts receivable from the provision of the Group's products and services. The average credit period taken on the provision of these services is 38 days (2019: 40 days). Trade receivables are stated net of an impairment for estimated irrecoverable amounts of £153,000 (2019: £137,000). During the year, £40,000 of the opening impairment provision of £137,000 from 1 October 2019, was utilised as a result of bad debts written off and subsequently a further increase in the impairment provision of £56,000 was made, resulting in a Group provision of for impairment of trade receivables of £153,000 at 30 September 2020.

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

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

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

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

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

Category	2019 £'000 Gross Trade Receivables	2019 £'000 Impairment Provision	2019 £'000 Net Trade Receivables	2019 Impairment Rate
Top 10 customers	620	(91)	529	14.7%
Next 50 customers	310	(28)	282	9.0%
Other customers	157	(17)	140	10.8%
	1,087	(136)	951	12.5%

Notes to the consolidated financial statements (continued)

Credit risk

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

14. Cash and cash equivalents

	2020 £'000	2019 £'000
Cash at bank and in hand	**588**	311

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

15. Trade and other payables

	2020 £'000	2019 £'000
Trade payables	**1,388**	876
Accruals	**460**	486
Other taxes and social security costs	**617**	302
	2,465	1,664

16. Contract liabilities

	2020 £'000	2019 £'000
Contract liabilities – short-term element	**565**	513
Contract liabilities – long-term element	**364**	94
	929	607

At 1 October 2019	**607**
Additions	**896**
Recognised in revenue in current year	**(574)**
At 30 September 2020	**929**

Contract liabilities on unfulfilled performance obligations arise when income is deferred to the Statement of Financial Position due to invoicing of revenue to customers occurring ahead of revenue recognition in the Income Statement. The long-term element will be recognised within 60 months of the balance sheet date (FY19: 36 months).

17. Borrowings

17.1 Current

	2020 £'000	2019 £'000
COVID-19 Bounce-back loan repayable – short-term element	**4**	—
MXC Guernsey Limited working capital facility	**100**	—
	104	—

MXCG provide a £0.5 million working capital facility of which £0.1 million had been drawn down at 30 September 2020. There are no set repayment terms but interest is payable at 12% per annum on drawn down amounts. This facility is set to expire in October 2021 but MXCG has confirmed it will extend to March 2022.

17.2 Non-current

	2020 £'000	2019 £'000
Loan notes	**3,014**	4,270
Accrued interest on loan notes repayable in October 2024	**398**	—
Loan notes (note 19}	**3,412**	4,270
COVID-19 Business Bounce-back loan repayable – long-term element	**46**	—
	3,458	4,270

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

Notes to the consolidated financial statements (continued)

17.3 Net debt – net debt comprises:

	2020 £'000	Cash movements £'000	Other movements £'000	2019 £'000
Loan notes	**3,412**	—	(858)	4,270
COVID-19 Bounce-back loan	**50**	50	—	—
MXC Guernsey Limited working capital facility	**100**	100	—	—
Lease liabilities	**183**	(183)	290	48
Cash and cash equivalents	**(588)**	(277)	—	(311)
Total	**3,157**	(310)	(568)	4,007

18. Lease Liabilities

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

	2020 £'000	2019 £'000
Current	**122**	**32**
Non-current	**61**	**16**
	183	**48**

Reconciliation of IAS 17 operating lease commitments at 30 September 2019 to lease liability recognised on adoption of IFRS 16

	2020 £'000
Operating lease commitments at 30 September 2019	**197**
Effect of discounting	**(29)**
Other – leases with less than 12 months unexpired	**(20)**
	148

19. Financial instrument

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

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

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

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

20. Deferred tax liabilities

	Deferred tax on acquired intangibles £'000
Deferred tax liability at 30 September 2018	1,248
Credited to income statement – on intangibles	(438)
Deferred tax liability at 30 September 2019	810
Deferred tax on acquisition of CloudCoCo Limited	418
Credited to income statement – on intangibles	(288)
Deferred tax liability at 30 September 2020	**940**

21. Share capital and reserves

Share capital and reserves comprises the following:

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

21.1 Share capital

Shares issued and fully paid

	2020 £'000	2019 £'000
Beginning of year	**2,271**	2,271
Issued during year to BGF on exercise of options	**500**	—
Issued during year to CloudCoCo Limited vendors	**2,181**	—
Shares issued and fully paid	**4,952**	2,271

Share capital allotted, called up and fully paid

	2020 No. Ordinary Shares	2019 No. Ordinary Shares
Ordinary shares of £0.01p	**495,225,986**	227,065,100

21.2 Share premium

	2020 £'000	2019 £'000
Beginning of year	**11,337**	11,337
Arising on extinguishment of BGF Loan Notes in consideration of 50,000,000 shares at 0.35p per share (note 19)	**1,275**	—
Arising on issue of shares to CloudCoCo Limited vendors at 3.3p	**5,018**	—
End of year	**17,630**	11,337

21.3 Capital redemption reserve

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

Notes to the consolidated financial statements (continued)

21.4 Merger reserve

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

21.5 Other reserve

	2020 £'000	2019 £'000
Beginning of year	**1,720**	1,649
Arising on extinguishment of BGF Loan Notes in consideration of 50,000,000 shares at 0.35p per share (note 19)	**(1,330)**	—
Cancellation of 11,353,255 share warrants held by MXC Guernsey Limited on acquisition of CloudCoCo Limited	**(242)**	—
Share based payments expense	**(26)**	71
End of year	**122**	1,720

21.6 Retained earnings

	2020 £'000	2019 £'000
Beginning of year	**(24,925)**	(19,775)
Arising on loss and total comprehensive loss for the period	**(2,679)**	(5,150)
Arising on extinguishment of BGF Loan Notes in consideration of 50,000,000 shares at 0.35p per share (note 19)	**1,148**	—
Cancellation of 11,353,255 share warrants held by MXC Guernsey Limited on acquisition of CloudCoCo Limited	**242**	—
End of year	**(26,214)**	(24,925)

Notes to the consolidated financial statements (continued)

22. Acquisition of CloudCoCo Limited

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

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

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

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

Subsidiary trading

It is not feasible to separate the performance of CloudCoCo Limited during the year. The business was subsumed into the Group's activities and its results are not separately reported. The results of the Group would not be materially different had the acquisition occurred on 1 October 2019.

These numbers exclude the amortisation charge associated with the intangible assets identified at acquisition.

23. Related party transactions
Details of Directors' interests in the Company's shares, service contracts and remuneration are set out in the report of the Board to the members on Directors' remuneration on pages 17 and 18. The Directors are also considered to be the Group's Key Management Personnel.

Mark Halpin, a Director of the Company had a 28.4% holding in the shares of the Company at 30 September 2020 and is considered to have a significant influence over the Group. A. Jill Collighan, a Director of the Company, is an employee of the MXC Capital Limited ("MXC"). At 30 September 2020, MXC had a 15.2% holding in the shares of the Company and is considered to have a significant influence over the Group. No other Director had a material interest in any significant contract with the Company or any of its subsidiaries during the year save for those disclosed in the accounts.

Prior to the acquisition of CloudCoCo Limited by the Group, CloudCoCo Limited purchased services of £100,000 from CoCoNitro Limited, a company jointly owned by Mark Halpin and Andy Mills of which £70,000 was outstanding at the date of acquisition. During the year, the Company repaid £45,000, resulting in £25,000 shown as current liability at 30 September 2020.

Fees invoiced by MXC to the Company include £38,000 for Jill Collighan's services as Non-Executive Director, included as directors' emoluments in Note 7. Additionally, corporate finance advisory and transaction services were purchased from MXC as financial adviser to the Company. The Group purchased services totalling £91,000 (2019: £102,000) from MXC and at 30 September 2020 owed £238,000 to MXC (2019: £129,000).

As part of Refinancing, MXC Guernsey Limited ("MXCG"), a wholly owned subsidiary of MXC, acquired £3.5 million loan notes of the Company, the terms of which were varied such that interest is charged at 12% compound per annum rolled up and payable only at the end of the term, which was also extended to October 2024 with no repayment due until that date unless the Company chooses to pay early. Also, MXCG provided the Company with a £0.5m working capital facility on which interest is charged at 12% per annum on amounts drawn down. At 30 September 2020, the Company owed MXCG £3.9 million in respect of the loan notes and £101,000 in respect of the working capital facility and interest accrued but not paid.

Prior to his appointment as a Director, the Company purchased services of £9,587 from Connemara Consulting Limited, a company owned by Michael Lacey.

24. Contingent liabilities
There are no contingent liabilities at 30 September 2020 (2019: nil).

25. Risk management

The Group finances its activities through equity, loan notes and bank funds. No speculative treasury transactions are undertaken and during the last two years no derivative contracts were entered into. Financial assets and liabilities include those assets and liabilities of a financial nature, namely cash and borrowings. The Group is exposed to a variety of financial risks arising from its operating activities, which are monitored by the Directors and are reported in the principal risks and uncertainties contained within the Strategic Report on pages 9 and 10.

25.1 Cash and liquidity risk
The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group policy throughout the year has been to ensure continuity of funding by a combination of loan note funding, the MXCG working capital facility of £0.5 million of which £0.4 million was undrawn at the 30 September 2020.

25.2 Interest rate risk
The interest rate on the Group's cash at bank is determined by reference to the bank rate. The Group has available credit card facilities with HSBC of up to £10,000 (2019: £10,000). The interest rate charged on finance leases and commercial loans is a fixed rate agreed at the time of signing the agreement. The interest rate charged by MXCG is at a fixed rate.

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

The Group manages its capital to ensure that trading entities in the Group will be able to continue as going concerns, while maximising the medium and long term returns to shareholders through the organisation of cash, debt and equity balances. The capital structure of the Group consists of cash at bank and in hand, debt and equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity on page 30.

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

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

Notes to the consolidated financial statements (continued)

25.3 Capital risk management (continued)

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

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

25.4 Credit risk

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

25.5 Risk management analysis

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

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

2019	Financial assets £'000	Non-financial assets £'000	Balance sheet total £'000
Trade and other receivables	951	538	1,489
Other current assets	—	32	32
Cash at bank and in hand	311	—	311
	1,262	570	1,832

Book value approximates to fair value.

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

Book value approximates to fair value with the exception of loan notes where the fair value is £3.9m.

2019	Other financial liabilities at amortised cost in the balance sheet £'000	Other liabilities not within scope of IFRS 9 £'000	Balance sheet total £'000
Trade and other payables	1,664	—	1,664
Contract liabilities – short-term element	—	513	513
Contract liabilities – long-term element	—	94	94
Borrowings – long-term element	4,270	—	4,270
Lease liability – short-term element	—	32	32
Lease liability – long-term element	—	16	16
	5,934	(75)	6,589

Book value approximates to fair value.

Notes to the consolidated financial statements (continued)

25.5 Risk management analysis (continued)

The remaining contractual maturity of the Group's financial instrument liabilities is analysed as follows:

2020	0 to 60 days £'000	61 days to 6 months £'000	6 to 12 months £'000	12 months to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total £'000
Trade payables	613	775	—	—	—	—	1,388
Borrowings	—	—	104	11	3,933	—	4,048
Lease liabilities	25	46	51	58	3	—	183
	638	821	155	69	3,936	—	5,619

2019	0 to 60 days £'000	61 days to 6 months £'000	6 to 12 months £'000	12 months to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total £'000
Trade payables	460	416	—	—	—	—	876
Borrowings	—	—	—	1,250	3,750	—	5,000
Lease liabilities	5	11	16	16	—	—	48
	465	427	16	1,266	3,750	—	5,924

26. Ultimate controlling party
There is no ultimate controlling party.

Statement of financial position (parent company)

as at 30 September 2020

	Note	**30 September 2020 £'000**	30 September 2019 £'000
Fixed assets			
Intangible assets	6	**—**	13
Fixed asset investments	7	**1**	1
Total fixed assets		**1**	14
Current assets			
Debtors	8	**10,056**	4,545
Cash at bank and in hand		**11**	8
Total current assets		**10,067**	4,553
Creditors: amounts falling due within one year	9	**(694)**	(599)
Net current assets		**9,373**	3,954
Total assets less current liabilities		**9,374**	3,968
Creditors: amounts falling due in more than one year	10	**(3,458)**	(4,270)
Net assets		**5,916**	(302)
Capital and reserves			
Called up share capital	11	**4,952**	2,271
Share premium account	11	**17,630**	11,337
Capital redemption reserve		**6,489**	6,489
Merger reserve		**1,997**	1,997
Other reserve		**122**	1,720
Retained earnings		**(25,274)**	(24,116)
Shareholders' funds		**5,916**	(302)

The parent company has taken advantage of Section 408 of the Companies Act 2006 and has not included its own profit and loss account in the financial statements. The parent company's loss for the year and included in the Retained earnings movement was £2,548,000 (2019: (£4,424,000)).

Approved by the Board and authorised for issue on 1 March 2021

Michael Lacey
Director

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

Company number: 05259846

Statement of changes in equity (parent company)

for the year ended 30 September 2019

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2018	**2,271**	**11,337**	**6,489**	**1,997**	**1,649**	**(19,692)**	**4,051**
Loss and total comprehensive loss for the period	—	—	—	—	—	(4,424)	(4,424)
Transactions with owners							
Share-based payments	—	—	—	—	71	—	71
Total transactions with owners	—	—	—	—	71	—	71
Total movements	—	—	—	—	71	(4,424)	(4,353)
Equity at 30 September 2019	**2,271**	**11,337**	**6,489**	**1,997**	**1,720**	**(24,116)**	**(302)**

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2019	**2,271**	**11,337**	**6,489**	**1,997**	**1,720**	**(24,116)**	**(302)**
Loss and total comprehensive loss for the period	—	—	—	—	—	(2,548)	(2,548)
Transactions with owners							
Extinguishment of BGF Loan Notes in consideration for issue of 50,000,000 shares at 0.35p per share (note 19)	500	1,275	—	—	(1,330)	1,148	1,593
Issue of 218,160,586 shares to CloudCoCo vendors at 3.3p per share (note 22)	2,181	5,018	—	—	—	—	7,199
Cancellation of 11,353,255 share warrants held by MXC Guernsey on acquisition of CloudCoCo Ltd	—	—	—	—	(242)	242	—
Share-based payments	—	—	—	—	(26)	—	(26)
Total transactions with owners	2,681	6,293	—	—	(1,598)	1,390	8,766
Total movements	2,681	6,293	—	—	(1,598)	(1,289)	6,087
Equity at 30 September 2020	**4,952**	**17,630**	**6,489**	**1,997**	**122**	**(25,274)**	**5,916**

The accompanying accounting policies and notes on pages 55 to 59 form an integral part of these financial statements.

Notes to the parent company financial statements

1. Accounting policies

1.1 Accounting convention

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

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

Going concern

The Group had positive net assets at 30 September 2020 totalling £5.0 million compared to net liabilities at the end of FY19 of £1.1 million. The acquisition of CloudCoCo Limited during FY20 and the Refinancing referred to in the Financial Review have returned the Group to a positive net assets position due to the issue of share capital of £7.2 million at completion and a refinancing of the loan notes of £1.3 million. The Group had an undrawn working capital facility at 30 September 2020 of £0.4m which formally matures in October 2021 but which the lender has confirmed that it will extend to March 2022.

The Group's progress towards its key objectives of increasing sales, reducing customer churn, reducing costs, and returning to net cash generation is described in the Strategic Report. Despite significant uncertainty and disruption as a result of the pandemic, the Group reported an improvement in underlying profitability as measured by Group Trading EBITDA (2020: £0.3m; 2019: £(0.2)m) and generated cash from operating activities, excluding costs of acquiring CloudCoCo Limited, of £0.4m.

The Strategic Report on pages 9 to 10 describes the risks associated with the Group's activities which are reviewed by the Directors on a regular basis. The key operational risk the Group faces is the general economic outlook including the continuing uncertainty caused by the pandemic. Although COVID-19 has not a material impact on the Group's ability to operate, it has resulted in delays in sales cycles for certain services and delays in project delivery as customers assess the impact of COVID-19 on their own businesses. The Group responded by taking action to conserve cash including temporary pay cuts, use of the Government's furlough and VAT deferral schemes and a COVID-19 Bounce Back Loan.

The Directors have reviewed the forecast sales growth, budgets and cash projections for the period to March 2022. The Directors have performed sensitivity analysis which reflects uncertainty in assumptions regarding growth in services and customer projects and considered that the Group expects to have sufficient cash resources provided that the MXCG working capital facility is made available beyond October 2021. At the request of the Directors, MXC has provided confirmation that it will provide continuing financial support including the extension of the existing facility until March 2022.

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

1.2 Compliance with accounting standards

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

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

1.3 Intangible fixed assets

Intangible fixed assets, comprising the cost of the Company and Group website, is valued at cost less amortisation. Amortisation is provided at rates calculated to write off the cost over its estimated useful life, estimated to be three years.

1.4 Investments

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

1.5 Pensions

The Company does not currently offer a pension scheme for the benefit of its employees.

1.6 Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the reporting date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in different periods from those in which they are included in the accounts.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Notes to the parent company financial statements (continued)

1.7 Share-based remuneration

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

1.8 Critical accounting judgements and key sources of estimation uncertainty

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

Key sources of estimation uncertainty

Where there is indication of impairment, the debtors balance is impaired by a charge to the Company's Income Statement. The debtors' balance of £9.9 million is recorded in the Company's Balance Sheet and relates to the amounts owed by subsidiary undertakings after impairment. At the end of each period, the minimum level of impairment provided is calculated such that the net assets of the Company are equal to the net assets of the Group net of any Deferred Tax. In addition, a full line-by-line review of the debtors is carried out for any further impairment. Whilst every attempt is made to ensure that the impairment provision is as accurate as possible, there remains a risk that the provisions do not match the level of debts which ultimately prove to be uncollectable.

1.9 Financial assets

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

1.10 Financial liabilities

Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest-related charges are recognised as an expense in "finance costs" in the Consolidated Income Statement. Loan notes are raised for support of long-term funding of the Group's operations. The financial liability arising on the loan notes is carried at amortised cost. In the financial statements at 30 September 2019, loan notes were treated as a compound instrument as if the options granted to the lender represented an option to convert loan notes into equity.

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

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

2. Auditor remuneration

Fees payable to the Company's Auditor for the audit of the parent company's annual accounts were £20,000 (2019: £22,000).

3. Employee costs

The average number of staff employed by the Company during the year was 5 (2019: 3). These were all Directors. The costs for the year were £294,000 (2019: £147,000). Further detail is provided in note 7 to the consolidated financial statements.

4. Pension payments

The Company made pension payments of £5,000 during the year (2019: £nil). Further detail is provided in note 7 to the consolidated financial statements.

5.Share-based payments

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

Notes to the parent company financial statements (continued)

6. Intangible fixed assets

	£'000
Cost	
At 1 October 2018 and 1 October 2019	60
Additions during the year	—
At 30 September 2020	**60**
Depreciation	
At 1 October 2018	27
Charge for the year	20
At 30 September 2019	**47**
Charge for the year	13
At 30 September 2020	60
Net book value	
At 30 September 2020	—
At 30 September 2019	13

7. Fixed asset investments

	£'000
Cost and net book value	
At 1 October 2019 and 30 September 2020	**1**

At 30 September 2020 the Company had two subsidiary undertakings.

Company	Country of registration or incorporation	Class of shares held	%
Subsidiary undertakings			
CloudCoCo Holdings Limited	Scotland	Ordinary	100
CloudCoCo Cloud Services Limited	England and Wales	Ordinary	100

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

Company	Principal activity	Net assets £'000	Loss for the year £'000
CloudCoCo Holdings Limited	Intermediate holding company	(11,034)	(187)
CloudCoCo Cloud Services Limited	Dormant	1,000	—

At 30 September 2020, the Company had the following subsidiaries:

Active companies

Subsidiary company	Holding	Country of incorporation	Shares	Nature of business
CloudCoCo Holdings Limited	100%	Scotland	Ordinary	Holding company
CloudCoCo Managed IT Limited	100%	England and Wales	Ordinary	IT Managed Services
CloudCoCo Managed IT Limited	100%	England and Wales	Ordinary	IT Managed Services

On 21 October 2019, CloudCoCo Holdings Limited acquired the entire issued share capital of CloudCoCo Limited for a total consideration of £7.2 million. The consideration was satisfied in full by the Company on behalf of CloudCoCo Holdings Limited, by the issue of 218,160,586 new Ordinary Shares at 3.3p per share (being the mid-market price on the date of the acquisition).

Dormant companies

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

Notes to the parent company financial statements (continued)

For the year ending 30 September 2020 the following subsidiaries of the Company were entitled to exemption from audit under s479A of the Companies Act 2006 relating to subsidiary companies.

Subsidiary Name	Companies House Registration Number
Pinnacle CDT Limited	04613699
CloudCoCo Cloud Services Limited	11504479
Ancar-B Technologies Ltd	03347248

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

8. Debtors

	2020 £'000	2019 £'000
Amounts owed by subsidiary undertakings after impairment	**9,989**	4,497
Prepayments	**32**	31
Other taxes and social security costs	**35**	17
	10,056	4,545

The charge in the period for impairment of amounts owed by subsidiary undertakings was £1.4m, (FY19: £3.4m). The amounts owed by subsidiaries are unsecured, interest free and are repayable on demand.

9. Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	**442**	356
Other taxes and social security costs	**—**	2
COVID-19 Bounce back loan repayable – short-term element	**4**	—
MXC Guernsey Limited working capital facility	**100**	—
Accruals	**148**	241
	694	599

Further detail on the COVID-19 Bounce back loan and the MXC Guernsey Limited working capital facility is provided in note 17 of the consolidated financial statements.

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

	2020 £'000	2019 £'000
Loan notes	**3,014**	4,270
Accrued interest on loan notes repayable in October 2024	**398**	—
Loan notes	**3,412**	4,270
COVID-19 Bounce back loan repayable – long-term element	**46**	—
	3,458	4,270

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

11. Financial instrument

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

12 Share capital and reserves

Share capital and reserves comprises the following:

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

Notes to the parent company financial statements (continued)

12.1 Share capital

Shares issued and fully paid

	2020 £'000	2019 £'000
Beginning of year	**2,271**	2,271
Issued during year on exercise of share options and extinguishment of £1.5m loan notes	**500**	—
Issued during year to CloudCoCo Limited vendors	**2,181**	—
Shares issued and fully paid	**4,952**	2,271

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

Share capital allotted, called up and fully paid

	2020 No. Ordinary Shares	2019 No. Ordinary Shares
Ordinary shares of £0.01p	**495,225,986**	227,065,100

12.2 Share premium

	2020 £'000	2019 £'000
Beginning of year	**11,337**	11,337
Arising on extinguishment of BGF Loan Notes in consideration of 50,000,000 shares at 0.35p per share	**1,275**	**—**
Arising on issue of shares to CloudCoCo Limited vendors at 3.3p	**5,018**	**—**
End of year	**17,630**	11,337

12.3 Capital redemption reserve

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

12.4 Merger reserve

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

12.5 Other reserve

The Other reserve relates to share-based employee remuneration to be settled in equity. Further detail is provided in note 21.5 of the consolidated financial statements.

13. Related party transactions

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

14. Contingent liabilities

There are no contingent liabilities at 30 September 2020 (2019: nil).

Directors, Secretary and advisers

Directors

Simon Duckworth OBE DL
Non-Executive Chairman

Jill Collighan
Non-Executive Director

Andy Mills
Non-Executive Director

Mark Halpin
Chief Executive Officer

Mike Lacey
Chief Financial Officer

Company Secretary

Darron Giddens

Company number

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Nominated adviser and broker

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Solicitors

DAC Beachcroft LLP
25 Walbrook
London
EC4N 8AF

CloudCoCo is a people-led business first and foremost. With a skilled team of Microsoft, cloud, cybersecurity, connectivity, collaboration and IT hardware experts we unlock business optimisation and transformation, cost savings, streamlined workflows and innovative solutions to business problems for clients of all sizes.

The Group's knowledge, gained through employees with multiple years of industry experience, helps our customers create a competitive edge, by providing IT solutions that support our customers business activities. We have a burning passion to delight people with every aspect of our service and provide the alternative to the archaic managed IT services models.

We also champion putting the power back into the hands of customers, offering easy-to-use self-service options.

CloudCoCo seeks to be highly responsive and provide customers with modern and innovative solutions to realise their sought outcomes, achieved through collaborative partnerships with an ecosystem of solution and service providers, distributors and vendors. Our 24/7 UK response team, together with our strategic consulting and professional services team, provide exactly what businesses need from IT at any given time.

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