

# Annual Report

CloudCoCo Group plc

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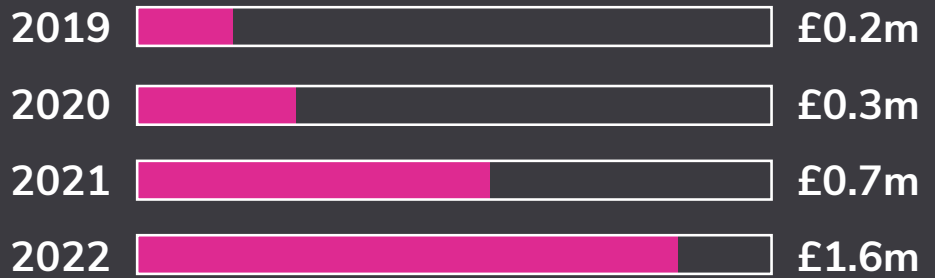
2023

**CLOUDCOCO**  
THE FUTURE STARTS NOW

# AT A GLANCE...



## Trading Group EBITDA Growth



## Our Services



Connectivity



Cloud/Data  
Centres



Collaboration



Cyber Security



IT Support



Microsoft



Professional  
Services



Hardware &  
Software

## Our Partners



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# Chairman's statement

## Overview

I am pleased to report our annual results for the year ended 30 September 2022.

We approached the year with a focus on three key areas;

- to accelerate sales;
- to maintain excellent support levels, and
- to drive efficiencies and strengthen financial position

An additional priority was the accelerated 'Get Well' programme for the Group's newly acquired businesses, with a particular emphasis on managing costs, driving efficiencies and realising the synergy benefits across these businesses. We undertook this strategy with a view to supporting long-term, sustainable and profitable growth across the business.

I am therefore delighted to report an increase in Trading Group EBITDA<sup>1</sup> to £1.6 million (2021: £0.7 million).

## People

Through the major steps taken to grow the business in the last two years, CloudCoCo now comprises over 125 talented people. I am delighted that all parts of the business worked collaboratively through the necessary initiatives to operate as a single, cohesive business and I would like to thank all colleagues for their efforts.

One of the significant milestones during the year was the acquisition of CloudCoCo Connect Limited ("the Connect business"), acquired as IDE Group Connect Limited in October 2021 and the subsequent and successful execution of the internal project known as "Project 150", a strategy designed to generate £150k per month of additional benefit from sales and cost savings for the enlarged business. This was a collaborative effort from everyone involved where all ideas were welcome and I'm delighted with the outcome.

In view of the significantly expanded team and proposition as a result of our acquisitions, the Group also made key appointments to oversee the continued expansion of the business.

Post-period end, in October 2022, we promoted internally to create a new role of Group Commercial Director (a non-board position) to consolidate our vendor and partnership relationships and ensure we obtain best price and consistent delivery of service from our third-party suppliers. This has progressed well with the additional hire of a Vendor Alliance Manager to concentrate on solidifying our strategic relationships with key providers within our ecosystem.

We also appointed a Head of People (a non-board position) to ensure the right people systems and practices are in place to support growth and to promote our collaborative, inclusive and high-performance culture.

With a view to cultivating homegrown talent and to contribute to the acceleration of our organic revenue growth, in July 2022 we launched our CloudCoCo sales academy. Initially comprising five entry-level sales staff, the academy has proven a great success and I look forward to seeing the expansion of this project to incorporate new colleagues in FY 2023.

## Ambitions for the financial year

Through organic growth and acquisition, CloudCoCo has fortified its position within the Managed Services and Value Added Reseller space.

With the necessary corrective actions taken to ensure positive Trading Group EBITDA<sup>1</sup> across the business during FY 2022, the Group is now positioned as a larger and significantly more efficient platform from which it can scale and capture the considerable market opportunity available to it.

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

Simon Duckworth

## Chairman

15 March 2023

<sup>1</sup> profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.

# Chief Executive's Review

## Introduction

I am pleased to have overseen another year of significant strategic and commercial progress for CloudCoCo.

The acquisition of four businesses over the last 18 months has brought about a step-change in the Group's capabilities. The addition of data centre locations, private managed core dark fibre network services and e-commerce capabilities, for example, have opened up a wealth of new revenue opportunities.

While we recognised the massive potential across each of these businesses, we knew it would take a tremendous amount of hard work and dedication through intensive integration and optimisation phases before we began to see the commercial benefits filter through. Those initial phases are now complete and, with all parts of the Group now operating profitably at the Trading Group EBITDA<sup>1</sup> level, I am proud of what our teams have been able to achieve in such a short space of time.

With the steps taken to stabilise the acquired businesses, in the second half of the year, we launched a comprehensive programme to grow our sales pipeline. Referred to internally as Project IGNITE, this was a multi-channel marketing project focused on lead generation, comprising the implementation of additional sales systems and the introduction of new talent in our new business, mobile, alliances, sales academy, retention, and ecommerce teams.

The new systems implemented in the second half have enabled us to identify sales opportunities more intelligently and efficiently. This, combined with the positive impact of our recently established sales academy, saw our pipeline gain some further momentum post-period.

As we move through the new financial year, all parts of the CloudCoCo business now operates as a single, cohesive unit. We have built a platform ripe for scaling and, with our colleagues, old and new, all pulling in the same direction.

## Our strategy

Having spent the last few years building a strong, scalable platform, we can now plot a path towards our long-term goal of becoming one of the larger UK Managed Services businesses with revenues of over £100m. This will be achieved through a combination of carefully selected acquisitions in our chosen markets, a single-minded focus on attracting and delighting new customers, and increased spend from existing customers.

Our proposition will be built around four principal areas: Connectivity, Multi-Cloud, Collaboration and Cyber Security.

**Connectivity:** following the acquisitions, we have an extraordinary set of network assets at our disposal that are not being used to their fullest potential. It is our intention to rebrand these and leverage them to create new revenue streams and win contracts with much larger, multisite organisations where speed and secure access to data centres around the UK are essential.

**Multi-Cloud:** we are committed to building CloudCoCo into a northern, multi-cloud powerhouse; a truly agnostic partner able to offer customers the solution that best suits their business needs. This will be a key area of investment.

**Collaboration:** telephony is in CloudCoCo's DNA. We have most of the building blocks to accelerate growth in this area and are actively exploring strategic partnerships that will take us to the next level.

**Cyber Security:** CloudCoCo has built a reputation for its cyber security offering, centred around our relationships with industry giants such as Fortinet. It is our intention to continue in a similar vein, bolstering our capabilities and accreditations through new and extended partnerships.

## Integration of our acquisitions

This year saw the full impact of the value-added reseller ("VAR") acquisitions of Systems Assurance and More Computers, having been acquired on 6 September 2021. The acquisitions signalled the start of the Company's "Get Bigger" phase to provide scale to the business. This followed the successful completion of the "Get Well" and "Get Fit" phases leading up to that point. More Computers introduced a proven and scalable hardware engine into CloudCoCo's business which helped increase operational efficiency and drive margins which assisted the Group in driving VAR revenues by 190% during the year.

As reported at the interim results, we were delighted to see the IDE Connect business acquired in October 2021 reach monthly EBITDA breakeven (before exceptional costs) in March 2022, ahead of our initial timeline, as a result of the corrective actions taken in the first half of the financial year ("H1"). The first phase of the "Get Well" actions are largely complete, with some supplier rationalisation and contract negotiations still to complete.

This was achieved through the execution of "Project 150", referring to the c. £150k of additional benefit from sales initiatives and monthly savings we sought to achieve to deliver a swift turnaround of the Connect business from delivering £800k of losses per annum. This was achieved through the implementation of careful cost-savings and an improvement of the business's sales function, which is now able to provide a wider portfolio and greater support to customers.

<sup>1</sup> profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.

## Chief Executive's Review (continued)

As part of the Connect acquisition, we inherited 83,000 IPv4 addresses which are in short-supply globally and present the Group with an opportunity to add value. We are currently carrying out a comprehensive audit to inform a decision to either dispose of excess addresses or manage the assets on behalf of clients. Sales of IP addresses generated £0.1 million of revenue in the year.

The acquisition of Connect added a core fibre network and 32 data centre locations to the Group. The relatively low acquisition price paid for Connect in part reflected the fact that an element of this core fibre network was discontinued prior to acquisition but remained in long-term contract with the underlying dark-fibre supplier. This onerous contract liability has been recorded in the acquired Balance Sheet of Connect (see note 18).

Now that the rationalisation of many elements of the core network and data-centre estate obtained through the Connect acquisition has been achieved, we intend to bring those assets to the fore of our offering. The high speed and secure connectivity they provide to data centres in the UK is impressive and enables us to pursue larger, multi-site customers with conviction.

To modernise our web-offering and improve the customer buying experience, we successfully completed the rebrand of our VAR business More Computers, which we acquired in September 2021. Now rebranded as MoreCoCo, the business comprises a consumer-facing website, with a comprehensive range of consumer and personal electronics, as well as a dedicated alternative website for businesses, both launched in the second half of the year. We are already seeing how incorporating the automated ecommerce engine is benefitting the existing CloudCoCo customer base with an improved choice of goods and streamlined buying experience.

I am pleased to report all acquisitions are now operating profitably and on track to fulfil their potential. With the integration process of the four acquisitions made since September 2021 now complete, we move forward with a proven blueprint for expanding the Group through adding complementary businesses.

### Progress against FY 2022 objectives

#### Accelerate sales

The business achieved revenues of £24.2 million in the 12 months to 30 September 2022 compared with £8.1 million in the prior year.

	2022 £'000	2021 £'000
Managed IT Services	17,056	5,648
Value added resale	7,137	2,459
<b>Total Revenue</b>	<b>24,193</b>	<b>8,107</b>

The results were impacted positively by the acquisitions made in late 2021 as follows:

	2022 £'000	2021 £'000
CloudCoCo Limited	6,928	8,107
Systems Assurance Limited	3,695	—
More Computers Limited	1,963	—
CloudCoCo Connect Limited (formerly IDE Group Connect Limited) and its subsidiary	11,607	—
<b>Total Revenue</b>	<b>24,193</b>	<b>8,107</b>

Total Contract Value, the measure used to reflect the total revenue that we can expect to generate from new customer contracts signed in the year over their contractual term, increased to £15.7 million (2021: £5.2 million).

Managed IT services represented 70% of revenues (2021: 70%) of which 95% related to recurring contracted services, a key focus for the Group. We continue to see demand for the Group's services, including customers investing in solutions to protect their sensitive data and improve their cyber security provisions.

Whilst the most recent industry trend is to help business customers to make the most of their existing digital investments by "doing more with less", we were also able to increase value added resale revenues during the year by 284% from £2.5m in FY 2021 to £7.1m in FY 2022 as a result of the larger customer base and broader service offering as a result of the acquisitions made in late 2021, which accounted for the majority of the increase in the year.

A continued focus for the Group during the year was to secure new and larger, multi-year contracts. The increased capabilities and scale derived from our newly acquired businesses put us in a strong position to achieve this ambition, and our multi-year agreements with Wall Street Docs, Healthcare Quality Improvement Partnership, St John Ambulance and The ID Register are evidence of delivery. We added 39 new logo customers in the year (2021: 35) and remain focussed on increasing our reach into new sectors through organic growth. Indeed, we have already seen the number of new logo customers won in the first half of FY 2023 surpass those won in the first half of FY 2022 by 33% .

<sup>1</sup> profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.

## Chief Executive's Review (continued)

In addition to increasing new sales opportunities, we were able to extend the number of the existing recurring customers into new term-based contracts during the year. A large percentage of the existing customer base have recurring contracts that will auto-renew, but often we will sit with the customer, redesign their solution, and agree a new roadmap to optimise their managed services solution in a new multi-year term agreement. We signed key renewals during the year with leading UK property consultants Allsop and the American multi-national medical business Abbott Laboratories.

The four acquisitions made in late 2021 and the combined focus on developing our sales engine whilst continuing to look for opportunities to improve our cost-base efficiencies, helped us to deliver Trading Group EBITDA<sup>1</sup> growth during the year of 129% to £1.6 million (2021: £0.7 million). There remain further opportunities for us to consolidate our buying power as we look to rationalise the number of key partners we use for the £16.2 million of third-party cost of sales.

With our expanded capabilities derived through acquisition, we have actively pursued cross-selling across different parts of the Group and are beginning to see early signs of success.

### Maintain excellent support levels

With the introduction of 79 new colleagues and inheriting a dramatically larger service offering, we remain as committed as ever to delivering best-in-class customer service. Culture is vital to the success of any business and it has been heartening to see our new joiners buy into our service-orientated approach so quickly.

Response times to support requests continued to improve in the period, with customer satisfaction levels remaining high. More than 90% of support events during the year were rated "good" or better, and we are exploring ways to use artificial intelligence to increase the speed and quality of delivery for repetitive service requests. Additionally, time to close tickets and call answer times all improved in the year.

### Drive efficiencies and strengthen financial position

During the year we established a formal commercial procurement team to build on the excellent work carried out so far to ensure the Group continues to rationalise its suppliers and contracts and find cost savings where possible.

We have made significant progress in this respect, but there is further work required. We aim to have completed a full line-by-line analysis by the end of H1 FY 2023 which will form the basis for any further action.

To further strengthen our position, as previously announced we are currently working towards addressing the onerous contracts we acquired from the IDE acquisition (see note 18) by swapping disconnected circuits out for new connections into our core fibre network. Good progress has been made to date and we are optimistic about achieving a satisfactory outcome. Data centre locations that have excess capacity are also being marketed to increase utilisation.

We have also reviewed and consolidated colleague roles where possible, identified synergies, and maintained our disciplined approach to reducing cost of sales and overheads without compromising quality of service.

We continue to prioritise improving our financial strength and liquidity and are exploring ways to bolster our position. This includes improving speed of invoicing by offering discounts to customers with multi-year contracts for paying in advance and enhancing our due diligence in the credit control process.

### **The market**

As organisations both large and small experience an impact on their bottom line due to the inflationary environment, many businesses across our four areas of focus are now looking for good-value, customer-oriented partners to help them manage their IT solutions and spend.

This is prompting an evolution in the market, with many of these organisations now looking to move away from the larger and typically less agile Managed Services Providers. We are seeing particular traction in Microsoft related skills such as SharePoint and Azure Migrations, as well as the refresh of IT hardware.

Additionally, an increase in remote working has seen demand for laptops, monitors and remote telephony solutions grow as companies ensure that remote staff are provided with modern, company-owned hardware that can be securely managed and protected centrally. As an agile, customer-driven Managed Services Provider and VAR, CloudCoCo is well-positioned to capitalise on these trends.

### **Current trading and outlook**

In FY 2023, with all four acquisitions<sup>2</sup> now integrated and increasingly solid foundations on which to build, we will again look to drive organic growth. At the same time, we will look to scale through selective acquisitions where they are a good strategic fit, particularly those that can enhance the network and cloud technology infrastructure acquired through the Connect business, which we see as forming an important part of our future.

## Chief Executive's Review (continued)

The Group, as expected, has experienced some impact from increased costs relating to power and energy, particularly in relation to its data centre sites, which have resulted in price increases to our customers. We continue to monitor the situation carefully and are working closely with customers to ensure that they understand their energy consumption and are making recommendations to improve efficiency where possible.

Our sales pipeline is increasing at a healthy rate, particularly with larger and multi-year deals. There has been an uptick in this since the end of FY 2022, together with the signing of multiple longer-term new logo contracts which is testament to the strategy and investments made.

Despite the economic challenges, we are confident in our ability to deliver improved revenues and profitability in FY23.

Mark Halpin

**Chief Executive Officer**

15 March 2023

<sup>1</sup> profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.

<sup>2</sup> acquisitions of Systems Assurance Limited and More Computers Limited in September 2021 and IDE Group Connect Limited and Nimoveri Limited in October 2021.



# Financial review

## Acquisition of IDE Group Connect Limited and Nimoveri Limited

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

The Acquisitions provided the Group with circa 660 additional clients and a significant opportunity to upsell and cross sell services across the Group. The Acquisitions were acquired from IDE for a consideration of £250,000, funded via a loan note from IDE for £250,000 to be repaid over five years with an annual interest rate of Bank of England base rate +3% with no payments due in the first six months. The net liabilities acquired under the transaction included a cash balance of £497,000.

IDE agreed to provide the Group with a working capital facility of up to £500,000 on request for the first twelve months of acquisition, should it have been required to help fund the initial restructure of the Connect business. No amounts were drawn under this facility.

## Revenue and gross margin

Group revenue for the year to 30 September 2022 grew by 198% to £24.2 million (FY21: £8.1million) assisted by the acquisitions at the end of 2021, which perfectly complimented the existing service portfolio as well as adding new revenue streams which enhanced our proposition during the year.

These revenues produced a total gross profit of £7.9 million (FY21: £3.2 million) representing a gross margin of 32.8% (FY21: 39.6%) reflecting the fact that a large percentage of our revenues are derived from third-party vendors to allow the Group to remain asset-light.

The analysis of revenue from each of our operating segments is shown in note 3 to the accounts.

## Managed IT Services

Managed IT Services, which comprises recurring services and ongoing IT support often utilising the data centre locations, core network or technical skills at our disposal, continues to dominate the profile of our revenues, representing 70% (2021: 70%) of group revenues during the year, adding significant value to our customers providing specialist IT skills on-demand, so that they can focus on their core business activities. This grew to £17.1 million in FY 2022, from £5.6 million in FY 2021, underpinning the need for best of breed IT Managed services from UK business customers.

In line with our objective to grow the recurring contracted revenue base, it was pleasing to note that 95% (2021: 90%) of all Managed IT Services revenues were provided under recurring contracts. On average, new customer contracts sold are for an initial period of just under 2 years, although recurring contracts allows customers to auto-renew on similar terms at each anniversary.

The key to providing a one-stop solution for our customers is being able to deliver technical skills, project management and the hardware they require to undertake numerous IT projects that transform the way that they do business. During FY 2022, we saw professional services revenues which utilise our technical skills increase by 49% over FY 2021 to £0.9 million, as customers took the opportunity, post-COVID-19, to invest in core technologies to allow them to optimise efficiencies in new hybrid working era.

## Value added resale

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

Revenues from VAR were £4.6 million higher in FY22 than the prior year at £7.1 million (FY21: £2.5 million), due to the acquisitions of Systems Assurance and More Computers in September 2021, who specialise in sourcing a diverse range of hardware from major vendors at a cost-effective price.

VAR generated a gross profit of £1.4 million (FY21: £0.6 million) and gross margin of 20% (FY21: 25%), although the majority of VAR orders were delivered direct to site by our chosen hardware partners using our unique ERP links and therefore carrying a much lower overall cost to fulfil orders.

## Financial review (continued)

### Operating costs and performance

Excluding plc costs of £0.8 million (FY21: £0.5 million), our trading overheads<sup>2</sup> increased to £6.4 million (FY21: 2.5 million) following the acquisitions completed in late 2021. Driving efficiencies in our overheads was a key priority during the year as the Connect business we acquired from IDE Group in October 2021 had been trading at an annual reported loss of £0.8 million per annum, prior to joining our Group.

As an employee led business, 93% of our operational trading overheads relate to staff costs. Ensuring that we have the right mix of talent and skills available to support our customers is key, without leaving talent on the bench. We continue to look for ways to maximise value from our overheads through strategic partnerships and automation.

Whilst revenue, gross profit and cash balances remain the primary measures, one of our main financial key performance indicators is our Trading Group EBITDA<sup>1</sup> – our operational trading performance before plc costs, depreciation and amortisation, share based payments and exceptional items. This is a key industry measure, reflecting the underlying trading profits before the costs of assets and liabilities. Our Trading Group EBITDA<sup>1</sup> increased by £0.9 million to £1.6 million in the year (2021: £0.7 million, 2020: £0.3 million).

The acquisition of Connect added 32 data centre locations to the Group. A number of these data centre contracts meet the IFRS 16 definition of right of use assets (see note 11). Thus, rather than recognising an operating expense in respect of the cost of these data centres, they are instead recognised as assets, with an associated lease liability, impacting profit or loss as depreciation and interest expenses and are therefore not recognised in Trading Group EBITDA. To provide transparency in respect of these costs, we have introduced a second non-statutory measure, being Adjusted Trading Group EBITDA. This gives the Trading Group EBITDA<sup>1</sup> after deduction of the IFRS 16 data centre depreciation charge, and best equates to the cash profitability of the Group before plc costs, exceptional items and net finance expenses. Adjusted Trading Group EBITDA for the year was £1.1 million (2021: £0.7 million) as follows:

	2022 £'000	2021 £'000
Trading Group EBITDA <sup>1</sup>	1,594	745
Depreciation of IFRS 16 data centre right of use assets	(530)	—
Adjusted Trading Group EBITDA	1,064	745

### Plc costs

Plc costs in the year increased by £0.3 million to £0.8 million (FY21: £0.5 million). These are non-trading costs, relating to the Board of Directors of the parent company, the costs of being listed on the AIM Market of the London Stock Exchange and its associated professional advisors. Whilst this year includes a full-year of cost for the Executive Directors, we have also seen increases in costs relating to insurances, audit and advisory fees.

The whole industry has seen an upward trend in insurance premiums and policy costs over the past few years due to a greater number of claims against directors together with the expansion of regulations governing corporate behaviour. The backdrop of general rising insurance costs in the country has also been impacted by the uncertainty and volatility of the insurance market following COVID-19 and an increase in cyber-security incidents across the globe, further driving up costs. The Company takes proactive steps to minimise its exposure to risk, such as implementing strong governance practices and having robust risk management processes in place. Insurance costs increased by £70,000 during the year.

In addition, the costs relating to audit increased during the year following the enhanced scope as a result of the sizeable acquisitions made and the fact that the trade of the business is spread over a number of separate entities. The cost of financial audits in the United Kingdom has increased in recent years due to a number of factors, including the increasing complexity of financial reporting and regulatory requirements, which has increased the overall scope and workload for auditors. Audit costs increased by £40,000 during the year.

### Exceptional Items

During the year we incurred certain non-recurring 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 £0.6 million (2021: £0.5 million), of which £0.5 million (2021: £0.3 million) relates to the acquisitions made in 2021 and their associated restructure costs as we right-sized the business during the year. Further details of the exceptional items are shown in note 4.

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

During the year the Group incurred net finance costs of £0.7 million (FY21: £0.5 million). £0.6 million (2021: £0.5 million) of this was accrued interest on loan notes payable at the end of the loan notes' term in October 2024. The remaining £0.1 million (2021: nil) in this financial year relates to interest resulting from lease liabilities.

<sup>1</sup> profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.

## Financial review (continued)

### Net finance expenses, depreciation, amortisation and financial results for the full year (continued)

The Group incurred other costs including total amortisation and depreciation charges of £2.0 million (FY21: £1.1 million) and share-based payments charge of £119,000 (FY21: £217,000). Depreciation includes £0.5 million relating to IFRS16 data centre right of use assets and £0.2 million relating to tangible assets. After accounting for a deferred tax credit of £0.3 million (FY21: £0.1 million charge) arising as part of business, the reported loss for the year after tax was £2.3 million compared to a loss after tax for the year to 30 September 2021 of £2.1 million.

### Statement of Financial Position and cash

The Group had positive net assets at 30 September 2022 totalling £3.0 million (FY21: £5.2 million) and the cash position improved by £0.3 million to £1.5 million (FY21: £1.2 million). The four now cash generative businesses acquired in 2021, provide the business with a solid platform for growth.

The Group had a net cash inflow during the year of £0.3 million (FY21: £0.6 million), the main components being:

- Cash inflow generated from operating activities excluding the costs of acquisition of £1.0 million (FY21: cash outflow of £0.3 million);
- Net cash inflow of £0.5 million (net of cash acquired) to acquire the Connect business;
- Payments of deferred consideration for the acquisition of Systems Assurance Limited of £155,000 and for the Connect business of £25,000 during the period; and
- Payments of lease liabilities of £0.8 million (FY21: £0.1 million)

Current assets increased by £2.8 million to £7.0 million as a result of the acquisitions, although 76% of these relate to Trade and other receivables. We continue to operate an asset-light business and hold very little stock and work in progress relative to our revenues, preferring to ship-to-order direct from our vendor partners. £0.8 million of the increase during the year relates to prepayments as vendor contracts require us to pay for data centre rentals and leased line in advance. This practice is also mirrored in our end-user customer contracts, reflected in the increase in contract liabilities below.

Contract liabilities increased by £1.2 million to £2.5 million (FY21: £1.3 million) reflecting the acquisition of multi-year recurring customers contracts with the Connect business, coupled with the continued success that the Group had during the year, signing customers onto new longer term recurring revenue contracts, billed in advance.

In so far as possible, management look to balance movements in trade receivables and trade payables throughout the year to maintain a consistent bank balance. Notes 17 and 25 show the ageing profile of both trade receivables and trade payables.

Overall Net debt increased by £1.0 million to £4.1 million during the year. Net debt comprises cash balances of £1.5 million less the loan notes and rolled up interest of £4.4 million, together with £0.2 million deferred consideration owed for the acquisition of Connect and shown at fair value (see note 24.2). A further £0.9 million is owed in lease liabilities and COVID-19 bounce back loans. The Trading Group EBITDA<sup>1</sup> of the business exceeded the loan note interest in the year by £1.1 million (FY21: £0.3 million).

Tangible assets at year-end remained stable as £0.2 million (FY21: £0.2 million) and the costs of additional capex in the year of £115k (FY21: £31k), the majority of which were acquired to generate Managed IT services revenues to customers.

The acquisition of the Connect business delivered with it a core fibre network and 32 data centre locations. The majority of data centres are leased from third-party suppliers on renewable contract terms of up to 5 years in duration. Many of these data centre leases can be auto-renewed, resized or terminated in the months leading up to the end of the term, creating a new or modified leases in excess of twelve months, which then fall under IFRS16 as a right of use asset with associated lease. During the year, the Group entered into new or modified IFRS16 right of use leases of £1.1 million (see note 11). These leases, which had less than 12 months remaining on the date of acquisition, were treated as short-term leases up until the point at which they were renewed or modified. The acquisition also contained onerous contracts of £1.2 million over various terms up until November 2032 (see note 18).

Further details on the financial position of the Group are contained in the going concern section of the Directors' Report on page 22.

<sup>1</sup> profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.

<sup>2</sup> trading overheads are the group's administrative costs excluding depreciation and amortisation, plc costs, exceptional items and share-based payments

# Risks and risk management

## Principal risks and uncertainties

The Group is affected by a number of risks and uncertainties, not all of which are wholly within its control as they relate to the wider macroeconomic and legislative environment within which the Group operates. In addition, we have seen caution evident in some of our target markets due to the economic disruption over the past two years and short-term inflationary concerns.

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

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

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

Given the size of the Group it is not considered necessary to establish a full-time internal audit function.

The key financial risks of the Group are detailed in note 27 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 economy continues to deal with the challenges caused by the impacts of the pandemic which had a significant impact on the global economy, with business closures, job losses, and economic slowdowns in many countries. Many businesses, including our own, have since developed remote working practices which change the location and nature of the services that we provide. As a multi-cloud partner, we have helped customers to navigate these changes by providing on-premise or cloud based solutions as they manage this shift in working practices, although some industries continue to be hit by supply-chain issues and reduced demand.

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

### ***Brexit***

The UK left the EU on 31 January 2021 and the transition period ended on 31 December 2021 with a trade deal between the UK and the EU which will avoid the imposition of duties and tariffs on the movement of goods. The Group purchases and provides the vast majority of its goods and services within the UK. However, some vendors reside outside the UK and it is possible that prices may be affected by exchange rate changes. Whilst there have not been any material issues at present, there is some uncertainty around the likely long-term impact of Brexit on businesses and the UK economy. The Group carefully monitors price risk and will ensure customer quotes enable prices to reflect exchange rate changes.

### ***Energy crisis***

An escalating risk seen during 2022 was the impact that the rising cost of oil placed on a lot of UK electricity providers, who went into 'survival' mode and were consequently forced to put up the price of power to business customers. A surge in the cost of power has hit many energy-intensive industries such as ceramics, chemicals and steel and for some energy-intensive industries such as data centre operators. The cost of power has doubled in the last twelve months, forcing companies to cope with unprecedented cost increases. Ultimately, UK businesses will need to pass on some or all the cost of increased power costs to their customers and this has an impact on the overall UK economy. The Group relies on public energy-intensive cloud service providers such as Microsoft Azure, Amazon Web Services and Google to deliver services to its customers. In addition, the Group has a number of private cloud customers of its own, who house their servers securely within CloudCoCo run data centres. The current energy crisis causes uncertainty across many sectors and as such the Group continues to monitor UK energy prices on a regular basis. Where possible, the Group looks to fix energy prices for its customers by signing up to a term agreement with energy providers, but the risk remains for its UK business customers within impacted industries. The customer contracts allow us to pass third-party cost increases on to the customers.

## Risks and risk management (continued)

### Non-financial risks (continued)

#### **Cost of living crisis**

The current rising costs of essential goods and services in the UK, such as housing, energy, and food is having negative social and economic implications on consumers and businesses which is expected to adversely impact economic growth and productivity during 2023. Not only does this place additional financial pressure on the staff and customers of the Group but also reduces the level of disposable income available to support key industries that make up the customer base of the Group. The Group is committed to helping its employees by offering flexible remote working arrangements that reduce the costs of commuting and childcare and also by providing competitive salaries, health insurance plans, retirement and other benefits.

#### **Reputational risk**

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

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

#### **Commercial risk**

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

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

#### **Technology risk**

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

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

#### **Key resources**

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

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

#### **Contractual liabilities**

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

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

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

## Risks and risk management (continued)

### ***Regulatory compliance***

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

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

### ***Malicious activity and data protection***

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

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

### ***Acquisitions***

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

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

## Directors' Duties – Section 172 Statement

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

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

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

### Having regard to the consequences of strategic and long term decisions

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. Each matter discussed considers the wide range of interests of stakeholders including customers, employees, shareholders, suppliers and competitors and ensures that the business complies with applicable laws and regulations. Board meetings are chaired by the Group's non-executive Chairman, and all issues on the agenda are covered with the opportunity for additional matters to be raised. Matters reviewed at Board meetings include annual budgets and forecasts as well as consideration and approval of the interim and annual report and annual accounts. The principal decisions that arose from the Board meetings during the year have been included in the Chairman's Statement (see page 2) and Financial review (see page 7).

### Having regard to maintaining high standards of business conduct

The Directors recognise the importance of operating a robust corporate governance framework to safeguard the success and sustainability of the business. The Board ensures that the decisions taken are legally compliant and protect the interests of shareholders by clearly identifying risks and promoting transparency. The Corporate Governance Report on pages 16 to 19 demonstrates how the Board complies with the Quoted Companies Alliance Corporate Governance Code ("the QCA Code").

### Having regard to the interests of the employees

The Group strives to create a diverse and inclusive working environment where every employee feels welcome and can do their best work. CloudCoCo believes in the benefits of diversity and the importance of bringing a wide range of skills, experience and perspectives into its business. The executive Directors continually work with senior management to promote the Group's values. One of the outcomes of the post pandemic era was the decision taken to offer employees the option to incorporate a remote/hybrid home-working model into their working week. The Group provide the necessary equipment to facilitate home working. The CEO regularly briefs employees on developments in the business and encourages suggestions from employees on how improvements to the business and working environment can be addressed. The Group operates a share options plan, providing qualifying employees with an aggregate of 69,725,000 performance-based share options to align colleague incentivisation with shareholders' interests.

### Having regard to the fostering of relationships with customers and suppliers

#### *Customers*

CloudCoCo aims to delight its customers and this sentiment is at the heart of everything it does. The Group engages with its customers to understand and exceed their expectations. Updates and feedback from customers as well as operational statistics are regularly reported to the Board. Key achievements in the year were improved support help desk answering times and reduced number of open customer support tickets. We are currently investing in new technology to increase the number of ways that customers can contact us for support and service, including live chat and a client portal.

#### *Suppliers*

The Board takes a close interest in relations with key suppliers whose performance is crucial to our success. The Group is committed to ensuring the highest standards and quality across its operations and requires both its suppliers and partners to operate to the same high standards. The appointment of the Vendor Alliance Manager will help customers and staff gain access to the expertise and knowledge available from our suppliers.

### Having regard to the Company's operations on the community and the environment

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. As a provider of energy intensive data centre services to business customers, the Board are committed to ensuring that where possible it uses energy-efficient equipment, adopts virtualisation technology, and utilises optimised cooling systems. Whilst we are reliant on third-party suppliers to provide much of the infrastructure, we are committed to using partners who adopt renewable energy sources such as wind, solar, and hydro to power their data centre location. This reduces carbon footprint and helps us work towards carbon neutrality. Our data centre locations are monitored continuously and are regularly assessed to identify areas where energy efficiency can be improved and emissions reduced. The Group recycles paper and packaging and uses specialist recyclers of scrap telecommunications and IT equipment. The Group makes use of technologies to minimise the need to travel to meetings.

## Directors' Duties – Section 172 Statement (continued)

### Having regard to the need to act fairly between members of the Group

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. The Board deliver trading updates to members and actively promote activities of the business using social media.

### **Strategic Report**

This Strategic Report on pages 10 to 12 was approved by the Board of Directors on 15 March 2023 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 has held a number of non-executive positions in the public and private sectors. He was Chairman of Baring's Targeted Return Fund for over a decade and also chaired the Association of Police and Crime Commissioners. He also served as 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 Cambridge graduate, Simon is a former Chairman of the City of London Police Authority, who 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 has served on a number of Home Office committees and helped to design the National Crime Agency. Simon is a senior member of the City of London Corporation, and an active Army reservist.

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

### **Jill Collighan**

#### ***Non-Executive Director***

A Chartered Certified Accountant, Jill has over 18 years of operational experience at plc board level specialising in finance, human resources, investor relations and corporate finance. As well as her role with CloudCoCo, Jill is CFO of one of the Group's major shareholders, MXC Capital Limited, a technology-focused adviser and investor. From 2004 to 2014 Jill was Chief Financial Officer of the AIM-quoted mobile technology provider Zergo Group plc. Until January 2021, Jill also undertook the role of Interim Chief Financial Officer of the Group.

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

### **Andy Mills**

#### ***Non-Executive Director***

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

Andy joined the Board on 21 October 2019.

### **Mark Halpin**

#### ***Chief Executive Officer***

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

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

### **Darron Giddens**

#### ***Chief Financial Officer***

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

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

# Corporate governance report

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

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

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

### **Goals:**

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

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

### **Purpose:**

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

### **Strategy:**

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

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

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

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

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

The principal method of communication with private investors is via the Company’s Annual Report and Accounts, Interim Reports, the Annual General Meeting and other relevant announcements that are maintained on the Group’s investor website, [www.cloudcoco.co.uk](http://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. The Company promotes the activities and services of the group through regular updates via social media.

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 regular basis to measure satisfaction and solicit feedback to improve the business.

As a result of feedback received during the year we have increased the availability of online training resources to staff members and offer personal development sessions to employees to help identify their strengths and weaknesses, set goals for their professional growth, and create a roadmap for achieving those goals.

### 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. The Company has ISO9001 and ISO27001 procedures in place and regularly manages and updates a Quality Management System to manage risks by providing a standardised framework for managing processes, identifying potential risks, implementing controls to mitigate risks, encouraging continuous improvement, and ensuring compliance with regulatory requirements.

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

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

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

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

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

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

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

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

The Board members and their relevant experience and skills are detailed on page 15. 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 by attending seminars, conference and industry events. Directors seek feedback from their colleagues, employees, and other stakeholders in addition to reading industry publications and networking.

## Corporate governance report (continued)

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 advisers, it is considered the current composition of the Board is appropriate.

### 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.

Board meetings are collaborative and inclusive environments where members are encouraged to participate in the meeting by asking questions, sharing opinions, challenging others and providing input. Board effectiveness is discussed and feedback is considered during regular monthly board-meetings 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 advisers;
- quality debate and appropriate preparation;
- compliance with governance, legislation and regulation;
- focus on future vs past; and
- skills of board members.

The Board intend to carry out further internal evaluations during 2023.

#### **Succession planning and Board appointments**

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

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

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

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

The Board recognises that core values provide a framework which influences every level of the Group. Under guidance from the Board, the Chief Executive Officer takes the lead in developing and promoting the corporate culture and ensures that employees understand the business values and behaviours required to ensure that we perform as one team to deliver our business goals and maintain good employee relations. Our values and behaviours are communicated to all employees throughout the year via its intranet and a series of company-wide meetings and briefings. Employee engagement and consultation is encouraged through surveys, polls and by providing feedback from colleagues and customers instantaneously. Our core values are reinforced regularly through various means, such as recognition, rewards, and promotions. Employees who exemplify the core values are acknowledged and celebrated. The senior management team are encouraged to lead by example and to demonstrate the core values when making decisions. Qualifying employees are also awarded incentive based share options.

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

#### **Environmental policy**

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

#### **Health and safety**

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

## Corporate governance report (continued)

### 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 15.

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.

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

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

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

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

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

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

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

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

# Remuneration report

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

## Remuneration Committee

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

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

The Committee meets at least once a year.

## Remuneration of Executive Directors

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

## Remuneration of Non-Executive Directors

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

## Directors' remuneration (Audited information)

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

	Fees and salaries		Other benefits		Totals	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
<b>Non-Executive</b>						
S Duckworth	39	34	—	—	39	34
J Collighan <sup>1</sup>	36	32	—	—	36	32
A Mills	35	28	—	—	35	28
<b>Executive</b>						
M Halpin (in office since 31 March 2020) <sup>2</sup>	127	111	4	4	131	115
D Giddens (in office since 9 June 2021) <sup>2</sup>	88	36	4	3	92	39
M Lacey (resigned 8 June 2021)	—	62	—	2	—	64
<b>Total</b>	<b>325</b>	<b>303</b>	<b>8</b>	<b>9</b>	<b>333</b>	<b>312</b>

Other benefits include £6,000 (FY21: £4,000) in respect of pension contributions for M Halpin and £3,000 (FY21: £3,000) in respect of pension contributions for D Giddens. Additional benefits for M Halpin and D Giddens relate to the IFRS 2 charge for share-based payments and private health cover.

In 2017, the Group established long term incentive plan ("LTIP") to reward shareholder value generated reflected by a share price above 4.2p pence per share. Whilst active, the scheme holds no current value to its members or liability to the Group.

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

## Directors' interests in shares (Audited Information)

The interests of Directors (including connected parties) during the year in the Ordinary Shares of the Company at 30 September 2022 together with their interests as of 30 September 2021 were as follows:

Name of Director	30 September 2022	30 September 2021
	Number	Number
S Duckworth and Lady C Duckworth	25,850,000	25,850,000
A Mills	32,724,088	32,724,088
M Halpin and C Halpin	140,713,578	140,713,578
D Giddens	2,946,150	2,946,150

MXC Advisory Limited, who provides the services of Jill Collighan, is a wholly owned subsidiary of MXC Guernsey Limited, which had a 10.6% holding in the shares of the Company at 30 September 2022.

## Remuneration report (continued)

### Directors' interests in share options (Audited information)

Two directors held options over the Ordinary Shares of the Company as follows:

	2022	2021
Mark Halpin – Chief Executive Officer	22,200,000	7,500,000
Darron Giddens – Chief Financial Officer	7,000,000	7,000,000

On 19 August 2022 the Company granted options over 14,700,000 shares to Mark Halpin. As a member of the Concert Party formed when the Company acquired the share capital of CloudCoCo Limited on 19 October 2019, the new options granted to Mark Halpin carry further restrictions in that whilst the Concert Party, of which Mark is part, holds between 30 and 50 per cent of the share capital of the Company, these new options cannot be exercised without triggering the provisions of Rule 9 of the Takeover Code.

These restrictions do not apply to the 7,500,000 existing options granted to Mark Halpin on 20 November 2020, which form part of the Concert Party Options issued and approved by the Takeover Panel at a time when the Concert Party held more than 50 per cent of the Company's issued share capital.

All share options in place at 30 September 2022 have been granted under the terms of the Company's approved EMI share option scheme. Further details of share options can be found in note 7.

By order of the Board

Simon Duckworth

**Chairman, Remuneration Committee**

15 March 2023

## Directors' report

The Directors present their Annual Report, together with the financial statements and Auditor's report, for the year ended 30 September 2022 for CloudCoCo Group plc, company number 05259846.

### Principal activities

The principal activity of the Group is the provision of IT and communications solutions predominantly to UK based businesses. Further information can be found in the Strategic Report on pages 10 to 12.

### Results and dividends

The Group's loss on ordinary activities after taxation was £2.3 million (FY21: loss of £2.1 million). The audited financial statements of the Group are set out on pages 26 to 59. The Directors do not propose a dividend for the year ended 30 September 2022 (FY21: £nil).

### Strategic review

The information required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, including likely future developments and trading outlook, has been included in the separate Strategic Report on pages 10 to 12 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 2022 totalling £3.0 million compared to £5.2 million at the end of FY21. The acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited) ("Connect") contributed cash to the Group and the net cash inflow from operating activities exceeded lease payments.

The Group's progress towards its key objectives of increasing sales, reducing customer churn, reducing costs, and returning to net cash generation is described in the Strategic Report. Despite continued uncertainty and disruption as a result of the cost of living crisis and the initial losses incurred when acquiring the originally distressed Connect business, the Group reported a 129% percent improvement in underlying profitability as measured by Trading Group EBITDA<sup>1</sup> (2022: £1.6 million; 2021: £0.7 million). Cash inflow from operating activities before acquisition costs was £1.0 million (FY21: £0.3 million cash outflow) and cash balances increased by £0.3m overall.

The Strategic Report on pages 10 to 12 describes the risks associated with the Group's activities which are reviewed by the Directors on a regular basis. The key operational risk the Group faces is the general economic outlook including the energy costs crisis and uncertainty caused by the cost of living crisis. Although COVID-19 did not have a material impact on the Group's ability to operate in FY22, it did result in some delays in sales cycles for certain services and delays in project delivery as customers continued to assess the impact of COVID-19 on their own businesses. In addition, there is financial, operational and executional risk associated with the business combinations completed in late 2021, as described in notes 19 and 24.

The Directors have reviewed the forecast sales growth, budgets and cash projections for the period to September 2024, including sensitivity analysis on the key assumptions such as the potential impact of reduced sales or slower cash receipts, for the next twelve months and the Directors have reasonable expectations that the Group and the Company have adequate resources to continue operations for the period of at least one year from the date of approval of these financial statements. The Directors have not identified any material uncertainties that may cast doubt over the ability of the Group and Company to continue as a going concern and the Directors continue to adopt the going concern basis in preparing these financial statements.

### Directors

The present membership of the Board is as follows:

Simon Duckworth, Non-Executive Chairman  
Jill Collighan, Non-Executive Director  
Andy Mills, Non-Executive Director  
Mark Halpin, Chief Executive Officer  
Darron Giddens, Chief Financial Officer

Simon Duckworth will be offering himself for re-election at the forthcoming Annual General Meeting.

The biographical details of the current Directors of the Company are given on page 15.

Details of Directors' interests in the Company's shares, service contracts and remuneration are set out in the Directors' Remuneration Report on pages 20 and 21.

Fees in relation to Jill Collighan are paid to MXC Advisory Limited a subsidiary of MXC Guernsey Limited which has a 10.6% holding in the shares of the Company (shareholding at 30 September 2021: 10.6%) and which holds loan notes in the Company to the value of £3.5 million. No other Director had a material interest in any significant contract with the Company or any of its subsidiaries during the year.



## Directors' report (continued)

### Directors (continued)

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

### Substantial shareholdings

As at 15 March 2023, the following substantial shareholding interests had been notified to the Company. These balances also reflect the holding at 30 September 2022.

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

### Share options

During the year the Company issued 21,500,000 share options (FY21: 58,190,500) as part of the Company's 'CoCo-One' initiative in which qualifying colleagues were awarded options to encourage shared ownership and enhance retention, recruitment and incentivisation across the business. The share options, which have an exercise price of 1 pence per Ordinary Share, can be exercised at any time between 19 August 2024 (or earlier if there is a qualifying transaction) and 19 August 2032. The share options will only accrue value in the event the Company's share price being greater than 2 pence per Ordinary Share at the date of exercise, thereby aligning the interests of recipients with those of shareholders. Details of the share options remaining in force can be found in Note 7 to the consolidated financial statements.

### Share warrants

During FY21, the Company issued 4,000,000 share warrants to the vendors of Systems Assurance Limited, giving them the right to subscribe in cash for Ordinary Shares in the Group, at a Subscription Price of 1.5p per Ordinary Share, subject to certain pre-conditions during the ten-year period Exercise Period, commencing 3 March 2022. Further details are provided in Note 7 to the consolidated financial statements. No share warrants were issued during FY22.

### Corporate Governance

The Company recognises the importance of operating a robust corporate governance policy to give stakeholders confidence that the company is managed in an effective, transparent, and accountable manner. The Corporate Governance statement on pages 16 to 19 is included in this report by cross reference.

### Post-balance sheet events

There are no post-balance sheet events to report.

### Financial risk management and objectives

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

### Equal Opportunities

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

### Awareness of relevant audit information

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

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

## Directors' report (continued)

### **Annual General Meeting**

The Annual General Meeting will be held on 6 April 2023 at 1:00 p.m.

Notice of the Annual General Meeting will be sent to shareholders on 16 March 2023.

### **Independent Auditor**

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

By order of the Board

Darron Giddens

**Company Secretary**

15 March 2023

## 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 are required by the AIM Rules of the London Stock Exchange to prepare the Group financial statements in accordance with UK-adopted international accounting standards. 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 UK-adopted international accounting standards 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 UK-adopted international accounting standards.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and 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 2022 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 significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK-adopted International Accounting Standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including 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 2022 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Summary of our audit approach

<b>Key audit matters</b>	<b>Group</b> <ul style="list-style-type: none"><li>• Measurement of identifiable intangible assets acquired in business combinations</li><li>• Carrying value of goodwill and other intangible assets</li><li>• Accounting for leases of data centre assets</li></ul> <b>Parent Company</b> <ul style="list-style-type: none"><li>• Impairment of intercompany receivables</li></ul>
<b>Materiality</b>	<b>Group</b> <ul style="list-style-type: none"><li>• Overall materiality: £181,000 (2021: £148,000)</li><li>• Performance materiality: £135,000 (2021: £111,000)</li></ul> <b>Parent Company</b> <ul style="list-style-type: none"><li>• Overall materiality: £78,000 (2021: £107,000)</li><li>• Performance materiality: £58,500 (2021: £80,000)</li></ul>
<b>Scope</b>	Our audit procedures covered 100% of revenue, 99% of total assets and 96% of loss before tax.

## Key audit matters

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

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

## Measurement of identifiable intangible assets acquired in business combinations

<b>Key audit matter description</b>	<p><i>(Refer to page 38 regarding the accounting policy in respect of business combinations, page 42 regarding critical accounting judgements and estimates and note 24.2 relating to the acquisition of CloudCoCo Connect Limited).</i></p> <p>During the year the group completed the acquisition of the entire share capital of CloudCoCo Connect Limited.</p> <p>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.</p> <p>The directors identified intangible assets relating to brands and customer lists of £0.3m and £2.0m respectively, and goodwill of £1.2m.</p> <p>The measurement of intangible assets is complex and requires use of judgement in the selection of an appropriate technique and related inputs.</p>
<b>How the matter was addressed in the audit</b>	<p>We reviewed the design of the models that were used to measure the intangible assets arising as part of the business combination to assess whether they were appropriate.</p> <p>We tested the clerical accuracy of the models.</p> <p>We compared the models to the group's accounting policies to check that the policies had been consistently applied.</p> <p>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.</p> <p>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.</p> <p>We tested the sensitivity of the values of the brands and customer assets to changes in assumptions.</p> <p>We tested the measurement of the cost of the acquisition by inspecting the sales and purchase agreement.</p>

## Carrying value of goodwill and other intangible assets

<b>Key audit matter description</b>	<p><i>(Refer to page 40 regarding the accounting policy in respect of impairment testing, page 42 regarding critical accounting judgements and estimates and note 10 relating to the carrying value of goodwill and intangible assets and the assessment of impairment as at 30 September 2022).</i></p> <p>The carrying values of goodwill and other intangible assets as at 30 September 2022 are £6.8m and £5.7m respectively.</p> <p>The carrying value of goodwill is required to be tested for impairment on an 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.</p>
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# Independent Auditor's report to the members of CloudCoCo Group plc (continued)

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<b>How the matter was addressed in the audit</b>	<p>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 <i>Impairment of Assets</i>.</p> <p>We challenged the assumptions used in the models by:</p> <ul style="list-style-type: none"><li>• Comparing the cash flow forecasts to the actual performance for the year ended 30 September 2022;</li><li>• Comparing the assumptions to those used in the assessment of impairment in the previous year to identify changes and obtained explanation from management;</li><li>• Comparing the forecasts to actual performance observed since the year end;</li><li>• Performing sensitivity analysis to test the impact on the reported headroom of changes in cash flows and discount rates;</li><li>• Comparing the recoverable amount calculated by management to the market capitalisation of the group; and</li><li>• Using valuations specialists to review the pre-tax and post-tax discount rates for reasonableness.</li></ul> <p>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.</p> <p>We assessed whether the testing of impairment was performed at the lowest level of assets that are capable of generating cash flows independently.</p>
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## Accounting for leases of data centre assets

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<b>Key audit matter description</b>	<p><i>(Refer to pages 39 and 40 regarding the accounting policies in respect of right of use assets and leases, page 42 regarding critical accounting judgements and estimates and note 20 relating to lease liabilities).</i></p>
<b>How the matter was addressed in the audit</b>	<p>CloudCoCo Connect Limited enters into arrangements with data centre providers for the use of rack space. Management analysed the terms of the arrangements and applied judgement in assessing whether they provide control over the assets as defined by IFRS 16 <i>Leases</i>. At 30 September 2022, the value of right of use assets recognised in the statement of financial position is £0.8m.</p> <p>The measurement of right of use assets required the use of judgement in assessing whether rights to renew or extend contracts were likely to be exercised and also an estimate of the rate with which to discount the contractual cash flows</p> <p>We inspected agreements for the lease of data centre assets to understand the terms relating to the use of the assets and the rights of the company and of the supplier to extend or terminate the arrangements.</p> <p>We used our understanding of the lease terms and consulted with financial reporting specialists to assess whether the treatment by management of each contract was in accordance with the requirements of IFRS 16.</p> <p>We assessed whether the group's policy in respect of short leases was consistent with the requirements of IFRS 16 and had been consistently applied.</p> <p>We challenged the assumption relating to the discount rate used to measure the right of use asset and lease liability by comparing to the rates implicit in other financing arrangements and by assessing the sensitivity of the assets to changes in the estimate.</p> <p>We tested the clerical accuracy of the calculations relating to the right of use assets and lease liabilities.</p> <p>We assessed the completeness of the analysis performed by management by testing a sample of data centre invoices and testing whether the supplier was included in the analysis.</p> <p>We reviewed an analysis prepared by management of the monthly revenue and costs relating to individual data centres for evidence that right of use assets may be impaired. We tested the reliability of the analysis by agreeing a sample of revenues to sales invoices.</p>

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

## Impairment of intercompany receivables (parent company only)

**Key audit matter description** (Refer to page 63 regarding the critical accounting judgements and estimates and note 7 on page 65 regarding the carrying value of amounts receivable from subsidiary undertakings).

At 30 September 2022 the parent company has receivable balances due from subsidiary undertakings with a carrying value of £9.0m. The Group reported operating losses of £1.8m 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:

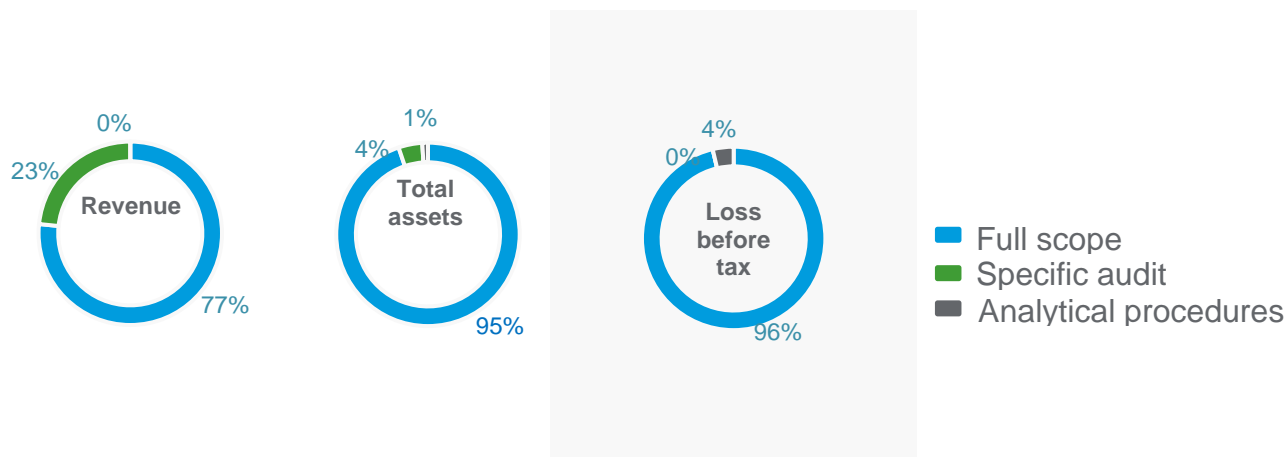
	Group	Parent company
<b>Overall materiality</b>	£181,000 (2021: £148,000)	£78,000 (2021: £107,000)
<b>Basis for determining overall materiality</b>	0.75% of revenue.	2% of net assets
<b>Rationale for benchmark applied</b>	We believe that revenue is an important measure of performance and is consistent with the expectations of the users of the financial statements as it reflects the significant growth in size as a result of acquisition.	We believe that net assets is an important measure in assessing the performance of the parent company.
<b>Performance materiality</b>	£135,000 (2021: £111,000)	£58,500 (2021: £80,000)
<b>Basis for determining performance materiality</b>	75% of overall materiality	75% of overall materiality
<b>Reporting of misstatements to the Audit Committee</b>	Misstatements in excess of £9,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £3,900 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

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

## An overview of the scope of our audit

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

The coverage achieved by our audit procedures was:



Full scope audits were performed for 3 components, specific audit procedures for 2 components and analytical procedures at group level for the remaining component.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

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

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

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

## Other information

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

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

We have nothing to report in this regard.



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

## Opinions on other matters prescribed by the Companies Act 2006

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

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

## Matters on which we are required to report by exception

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

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

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

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## The extent to which the audit was considered capable of detecting irregularities, including fraud

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

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

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

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

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

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

The most significant laws and regulations were determined as follows:

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

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

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

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

### Use of our report

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

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

16 March 2023

# Consolidated income statement

for the year ended 30 September 2022

	Note	2022 £'000	2021 £'000
<b>Continuing operations</b>			
<b>Revenue</b>	3	<b>24,193</b>	8,107
Cost of sales		<b>(16,246)</b>	(4,891)
<b>Gross profit</b>		<b>7,947</b>	3,216
Other income		—	67
Administrative expenses		<b>(9,784)</b>	(4,794)
<b>Trading Group EBITDA<sup>1</sup></b>		<b>1,594</b>	745
Amortisation of intangible assets	10	<b>(1,286)</b>	(1,009)
Plc costs <sup>2</sup>		<b>(770)</b>	(492)
Depreciation of IFRS16 data centre right of use assets	11	<b>(530)</b>	—
Depreciation of tangible assets and other right of use assets	11	<b>(164)</b>	(97)
Exceptional items	4	<b>(562)</b>	(441)
Share-based payments	7	<b>(119)</b>	(217)
<b>Operating loss</b>	5	<b>(1,837)</b>	(1,511)
Interest receivable	6	<b>1</b>	1
Interest payable	6	<b>(772)</b>	(535)
<b>Loss before taxation</b>		<b>(2,608)</b>	(2,045)
Taxation	8	<b>321</b>	(83)
<b>Loss and total comprehensive loss for the year attributable to owners of the parent</b>		<b>(2,287)</b>	(2,128)
<b>Loss per share</b>			
Basic and fully diluted	9	<b>(0.32)p</b>	(0.42)p

The accompanying accounting policies and notes on pages 37 to 59 are an integral part of these consolidated financial statements.

<sup>1</sup> profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.

<sup>2</sup> Plc costs are non-trading costs relating to the Board of Directors of the Parent Company, the costs of being listed on the AIM Market of the London Stock Exchange and its associated professional advisors.

# Consolidated statement of financial position

as at 30 September 2022

		30 September 2022 £'000	30 September 2021 £'000
<b>Non-current assets</b>			
Intangible assets	10	12,580	10,393
Property, plant and equipment	11	128	52
Right of Use assets	11	814	97
Total non-current assets		13,522	10,542
<b>Current assets</b>			
Inventories	12	165	86
Trade and other receivables	13	4,766	2,721
Contract assets	14	558	232
Cash and cash equivalents	15	1,516	1,183
Total current assets		7,005	4,222
<b>Total assets</b>		<b>20,527</b>	<b>14,764</b>
<b>Current liabilities</b>			
Trade and other payables	16	(6,890)	(2,872)
Contract liabilities	17	(1,891)	(177)
Provision for onerous contracts	18	(148)	—
Borrowings	19	(69)	(172)
Lease liability	20	(733)	(86)
Total current liabilities		(9,731)	(3,307)
<b>Non-current liabilities</b>			
Contract liabilities	17	(601)	(1,092)
Provision for onerous contracts	18	(927)	—
Borrowings	19	(4,723)	(3,991)
Lease liability	20	(112)	(11)
Deferred tax liability	22	(1,426)	(1,188)
Total non-current liabilities		(7,789)	(6,282)
<b>Total liabilities</b>		<b>(17,520)</b>	<b>(9,589)</b>
<b>Net assets</b>		<b>3,007</b>	<b>5,175</b>
<b>Equity</b>			
Share capital	23	7,062	7,062
Share premium account	23	17,630	17,630
Capital redemption reserve	23	6,489	6,489
Merger reserve	23	1,997	1,997
Other reserve	23	458	339
Retained earnings	23	(30,629)	(28,342)
<b>Total equity</b>		<b>3,007</b>	<b>5,175</b>

These financial statements were approved and authorised for issue by the Board of Directors on 15 March 2023.  
Signed on behalf of the Board of Directors by

Darron Giddens

**Director**

The accompanying accounting policies and notes on pages 37 to 59 form an integral part of these financial statements.

## Consolidated statement of changes in equity

for the year ended 30 September 2022

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
<b>At 1 October 2020</b>	<b>4,952</b>	<b>17,630</b>	<b>6,489</b>	<b>1,997</b>	<b>122</b>	<b>(26,214)</b>	<b>4,976</b>
Loss and total comprehensive loss for the period	—	—	—	—	—	(2,128)	(2,128)
<b>Transactions with owners in their capacity of owners</b>							
Issue of 210,990,000 shares at 1p per share via a Placing (note 23)	2,110	—	—	—	—	—	2,110
Share-based payments	—	—	—	—	217	—	217
Total transactions with owners	2,110	—	—	—	217	—	2,327
Total movements	2,110	—	—	—	217	(2,128)	199
<b>Equity at 30 September 2021</b>	<b>7,062</b>	<b>17,630</b>	<b>6,489</b>	<b>1,997</b>	<b>339</b>	<b>(28,342)</b>	<b>5,175</b>

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
<b>At 1 October 2021</b>	<b>7,062</b>	<b>17,630</b>	<b>6,489</b>	<b>1,997</b>	<b>339</b>	<b>(28,342)</b>	<b>5,175</b>
Loss and total comprehensive loss for the period	—	—	—	—	—	(2,287)	(2,287)
<b>Transactions with owners in their capacity of owners</b>							
Share-based payments	—	—	—	—	119	—	119
Total transactions with owners	—	—	—	—	119	—	119
Total movements	—	—	—	—	119	(2,287)	(2,168)
<b>Equity at 30 September 2022</b>	<b>7,062</b>	<b>17,630</b>	<b>6,489</b>	<b>1,997</b>	<b>458</b>	<b>(30,629)</b>	<b>3,007</b>

The accompanying accounting policies and notes on pages 37 to 59 form an integral part of these financial statements

# Consolidated statement of cash flows

for the year ended 30 September 2022

	2022 £'000	2021 £'000
<b>Cash flows from operating activities</b>		
Loss before taxation	(2,608)	(2,045)
Adjustments for:		
Depreciation – IFRS data centre right of use assets	530	—
Depreciation – owned assets	50	29
Depreciation – right of use assets	114	68
Amortisation	1,286	1,009
Share-based payments	119	217
Net finance expense	771	534
Costs relating to acquisitions <sup>1</sup>	58	202
Movements in provisions	(153)	—
Costs relating to Placing of 210,990,000 shares (note 23)	—	171
Increase in trade and other receivables	(1,064)	(408)
Increase in inventories	(79)	(24)
Increase / (decrease) in trade payables, accruals and contract liabilities	2,014	(57)
<b>Net cash inflow / (outflow) from operating activities before acquisition costs</b>	<b>1,038</b>	<b>(304)</b>
Costs relating to acquisitions <sup>1</sup>	(58)	(202)
<b>Net cash inflow / (outflow) from operating activities</b>	<b>980</b>	<b>(506)</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment (note 11)	(115)	(31)
Acquisitions net of cash acquired <sup>1</sup> (note 24)	497	(563)
Payment of deferred consideration relating to acquisitions (note 24)	(180)	—
Interest received	—	1
<b>Net cash inflow / (outflow) from investing activities</b>	<b>202</b>	<b>(593)</b>
<b>Cash flows from financing activities</b>		
Proceeds from Placing of 210,990,000 shares (note 23)	—	2,110
Less transaction fees relating to the Placing	—	(171)
Repayment of loan funds from MXCG	—	(100)
Repayment of COVID-19 bounce-back loan	(18)	—
Payment of lease liabilities	(813)	(120)
Interest paid	(18)	(25)
<b>Net cash (outflow) / inflow from financing activities</b>	<b>(849)</b>	<b>1,694</b>
<b>Net increase in cash</b>	<b>333</b>	<b>595</b>
Cash at bank and in hand at beginning of period	1,183	588
<b>Cash at bank and in hand at end of period</b>	<b>1,516</b>	<b>1,183</b>
Comprising:		
Cash at bank and in hand	1,516	1,183

<sup>1</sup> FY22 relates to the acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited) and Nimoveri Limited.  
FY21 relates to the acquisition of Systems Assurance Limited and More Computers Limited.

# Notes to the consolidated financial statements

## 1. General information

CloudCoCo Group plc is a public limited company incorporated and domiciled in England and Wales under the Companies Act 2006. The address of the registered office is given on the back cover of this report. The principal activity of the Group is the provision of IT Services to small and medium-sized enterprises in the UK. The financial statements are presented in pounds sterling (rounded to the nearest thousand (£'000)) 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 UK-adopted international accounting standards. 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 2022 totalling £3.0 million compared to £5.2 million at the end of FY21. The acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited) ("Connect") contributed cash to the Group and the net cash inflow from operating activities exceeded lease payments.

The Group's progress towards its key objectives of increasing sales, reducing customer churn, reducing costs, and returning to net cash generation is described in the Strategic Report. Despite continued uncertainty and disruption as a result of the cost of living crisis and the initial losses incurred when acquiring the originally distressed Connect business, the Group reported a 129% percent improvement in underlying profitability as measured by Trading Group EBITDA<sup>1</sup> (2022: £1.6 million; 2021: £0.7 million). Cash inflow from operating activities before acquisition costs was £1.0 million (FY21: £0.3 million cash outflow) and cash balances increased by £0.3m overall.

The Strategic Report on pages 10 to 12 describes the risks associated with the Group's activities which are reviewed by the Directors on a regular basis. The key operational risk the Group faces is the general economic outlook including the energy costs crisis and uncertainty caused by the cost of living crisis. Although COVID-19 did not have a material impact on the Group's ability to operate in FY22, it did result in some delays in sales cycles for certain services and delays in project delivery as customers continued to assess the impact of COVID-19 on their own businesses. In addition, there is financial, operational and executional risk associated with the business combinations completed in late 2021, as described in notes 19 and 24.

The Directors have reviewed the forecast sales growth, budgets and cash projections for the period to September 2024, including sensitivity analysis on the key assumptions such as the potential impact of reduced sales or slower cash receipts, for the next twelve months and the Directors have reasonable expectations that the Group and the Company have adequate resources to continue operations for the period of at least one year from the date of approval of these financial statements. The Directors have not identified any material uncertainties that may cast doubt over the ability of the Group and Company to continue as a going concern and the Directors continue to adopt the going concern basis in preparing these financial statements.

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

New standards or amendments to existing standards and interpretations that became effective for the annual period commencing on 1 October 2021 were interest rate reforms - amendments to IFRS 9.

None of the new standards or interpretations of existing standards above had a material impact on the Group during the year ended 30 September 2022.

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

The new standards or amendments that may be applicable to the 2023 financial statements are as follows:

- Onerous Contracts – Costs of Fulfilling a Contract - Amendments to IAS 37
- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Annual improvements to IFRS Standards 2018-2020.

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

## Notes to the consolidated financial statements (continued)

### 2. Principal accounting policies

#### a) Basis of consolidation

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

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

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

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

#### b) Goodwill

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

#### c) Revenue and revenue recognition

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

The Group enters into sales transactions involving a range of the Group's products and services; for example, for the delivery of hardware, software, support services, managed services, data centre locations, network connectivity 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 goods or services on their own or in conjunction with other readily available resources. A series of goods or services, such as Recurring Services, would be an example of a performance obligation that is transferred to the customer evenly over time. The Group applies the revenue recognition criteria set out below to each separately identifiable performance obligation of the sale transaction. The consideration received from multiple-component transactions is allocated to each separately identifiable performance obligation in proportion to its relative fair value.

#### *Sale of goods (hardware and software)*

Sale of goods is recognised at the point in time when the customer obtains control of the goods. Revenue from the sale of software with no significant service obligation is recognised on delivery at a point in time as this is when the customer takes possession and is able to use the software.

#### *Rendering of services*

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

Revenue from the delivery of professional services is recognised over the period of the project and measured on a time-based method using hourly rates.

Contracts for managed IT services are usually 12 months in duration and are automatically renewed unless termination rights are exercised. Revenue is recognised equally over the term of the contract as this fairly reflects the delivery of services to the customer.

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



## Notes to the consolidated financial statements (continued)

### **d) Foreign currencies**

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

### **e) Property, plant and equipment**

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

### **f) Right of use assets**

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

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

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

### **g) Disposal of assets**

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

### **h) Exceptional items and Plc costs**

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

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

Note 4 contains more detail on exceptional items.

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

### **i) Depreciation**

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

IT equipment	–	three to four years
Fixtures, fittings and leasehold improvements	–	three to four years
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 2022:

## Notes to the consolidated financial statements (continued)

### **j) Intangible assets (continued)**

- Billing and website systems amortised over three years;
- customer lists amortised over five to ten years; and
- brands amortised over ten years.

Judgment is used in the allocation of fair values to the tangible assets and the identification and valuation of intangible assets which affect the calculation of goodwill recognised in respect of an acquisition. Refer to principal accounting policy (w).

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

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

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

### **l) Leases**

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

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

### **m) Inventories and work in progress**

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

### **n) Taxation**

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

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

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.

## Notes to the consolidated financial statements (continued)

### ***o) Financial assets***

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

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

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

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

### ***r) Onerous contracts***

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

The recognition of the onerous contract liability is based on a reliable estimate of the expected costs and benefits of the contract. This estimate takes into account all relevant information, including the terms and conditions of the contract, market conditions, and the company's own experience.

### ***s) 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.

## Notes to the consolidated financial statements (continued)

### t) 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.

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

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

### u) 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.

### v) Government Grants

The Group received funding from various Government sources in relation to COVID-19 in FY21. 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.

### w) 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 24).

Judgement was also applied in determining whether contracts for dark fibre connections included the lease of identifiable assets for which a right of use asset and lease liability should be recognised. The directors concluded that except for last mile connections (if any) between the supplier's core network and the company's customer, the company did not have control over the use of specific fibres or utilise a significant proportion of the supplier's core network.

Judgement has been applied in the analysis of agreements relating to the lease of data centre assets including the impact of termination and extension options on the lease term. Management have exercised judgement in assessing the recoverability of right of use assets, or provision for onerous operating leases, for each of the lease arrangements relating to data centre assets.

Judgement has also been applied in the measurement of the economic benefit to be received when testing for impairment of ROU assets or onerous contracts and the selection of an appropriate discount rate with which to measure the provision described in note 18.

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.

#### *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.

## Notes to the consolidated financial statements (continued)

### w) Critical accounting judgements and key sources of estimation uncertainty (continued)

#### Valuation of Intangible assets (continued)

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

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

#### Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the company estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment. An internal borrowing rate of 10% per annum was applied when measuring the fair value of the right of use assets. A change of 1% in this borrowing rate would increase the carrying value of right of use assets at 30 September 2022 by £9,000.

### 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. A reconciliation between the non-statutory measure of Trading Group EBITDA<sup>1</sup> and the statutory operating loss is shown in the Income Statement. A reconciliation of Adjusted Trading Group EBITDA is shown in the Financial Review on page 7. The Board believes that the Group comprises a single reporting segment, being the provision of IT managed services to customers. Whilst the CODM reviews the revenue streams and related gross profits of two categories separately (Managed IT Services and Value added resale), the operating costs and operating asset base used to derive these revenue streams are the same for both categories and are presented as such in the Group's internal reporting.

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

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

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

#### 3.1 Analysis of continuing results

All revenues from continuing operations are derived from customers within the UK. In order to simplify our reporting of revenue, we condense our reporting segments into two categories – Managed IT Services and Value Added Resale. This analysis is consistent with that used internally by the CODM and, in the opinion of the Board, reflects the nature of the revenue. Trading EBITDA<sup>1</sup> is reported as a single segment.

##### 3.1.1 Revenue

	2022 £'000	2021 £'000
Managed IT Services	17,056	5,648
Value added resale	7,137	2,459
Total Revenue	24,193	8,107

##### 3.1.2 Revenue

	2022 £'000	2021 £'000
Recognised over time	16,187	5,066
Recognised at a point in time	8,006	3,041
Total Revenue	24,193	8,107

## Notes to the consolidated financial statements (continued)

### 4. Exceptional Items

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

	2022 £'000	2021 £'000
Costs relating to the acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited)	(58)	—
Dilapidations costs	(46)	—
Run-off costs relating to discontinued data centre services	(138)	—
Costs relating to the acquisition of Systems Assurance Limited and More Computers Limited	—	(202)
Costs relating to the Placing	—	(171)
Integration and restructure costs	(320)	(68)
<b>Exceptional items</b>	<b>(562)</b>	<b>(441)</b>

Integration and restructure costs relate to notice period, redundancy, holiday pay and severance payments made to staff whose roles were duplicate or whose employment was terminated during the year as part of integrating the acquisitions made in late 2021.

Run-off costs relating to discontinued data centre services contain unrecoverable operating expenses incurred during the year for data centre racks that were empty on acquisition.

### 5. Operating loss

	2022 £'000	2021 £'000
Operating loss is stated after charging:		
Depreciation of owned assets	50	29
Depreciation of right of use assets	644	68
Short life lease expense: IFRS16 data centre short-life leases	1,538	34
Amortisation of intangibles	1,286	1,009
Auditor's remuneration:		
– Audit of parent company	53	27
– Audit of subsidiary companies	106	53

Government grants were received in the year of £nil (2021: £67,000) as part of the Coronavirus Job Retention Scheme ("furlough") and recorded as Other Income in the income statement.

### 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:

	2022 £'000	2021 £'000
Interest income resulting from short-term bank deposits	1	1
Finance income	1	1
Interest expense resulting from:		
Lease liabilities	75	12
Interest on borrowings	17	12
Loan note interest	651	505
Interest on Government related COVID19 VAT deferral scheme	—	6
Unwinding of the discount on provisions	29	—
Finance costs	772	535

Loan note interest includes £526,000 (2021: £420,000) which is accrued and is only payable when the loan notes are repaid in October 2024 or earlier if the Group chooses.

### 7. Employee costs

#### 7.1 Directors and employees

At 30 September 2022, the Group employed 125 staff (2021: 57). The average number of staff employed by the Group during the financial year amounted to 129 (2021: 50) as follows:

	2022	2021
Management staff	13	11
Operational staff	116	39
Total	129	50

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

## Notes to the consolidated financial statements (continued)

### 7.2 Employee remuneration including directors

	2022 £'000	2021 £'000
Wages and salaries	5,288	2,248
Pension contributions	131	49
Social security costs	532	234
<b>Total</b>	<b>5,951</b>	<b>2,531</b>

There were £40,200 of pension contributions payable at the reporting date (2021: £5,300)

### 7.3 Directors

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

	Fees and salaries		Employer's NI contributions		Other benefits		Totals (including employer's NI)	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
<b>Non-Executive</b>								
S Duckworth	39	34	4	3	—	—	43	37
J Collighan <sup>1</sup>	36	32	—	—	—	—	36	32
A Mills	35	28	—	—	—	—	35	28
<b>Executive</b>								
M Halpin (in office since 31 March 2020) <sup>2</sup>	127	111	17	15	4	4	148	130
D Giddens (in office since 9 June 2021) <sup>2</sup>	88	36	11	5	4	3	103	44
M Lacey (resigned 8 June 2021)	—	62	—	8	—	2	—	72
<b>Total</b>	<b>325</b>	<b>303</b>	<b>32</b>	<b>31</b>	<b>8</b>	<b>9</b>	<b>365</b>	<b>343</b>

Other benefits include £6,000 (FY21: £4,000) in respect of pension contributions for M Halpin and £3,000 (FY21: £3,000) in respect of pension contributions for D Giddens. Additional benefits for M Halpin and D Giddens relate to private health insurance premiums.

1. fees in relation to J Collighan are paid to MXC Capital Advisory Limited (see note 23).

2. fees in relation to M Halpin and D Giddens only show the period since joining the Board.

### 7.4 Share-based payments

#### (i) Share option plans for employees

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

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

During the year the Company issued 21,500,000 share options (2021: 58,190,500) as part of the Company's 'CoCo-One' initiative in which all qualifying colleagues were awarded options to encourage shared ownership and enhance retention, recruitment and incentivisation across the business. The new share options, which have an exercise price of 1 pence per Ordinary Share, can be exercised at any time between 19 August 2022 (or earlier if there is a qualifying transaction) and 18 August 2032.

The share options will only accrue value in the event the Company's share price being greater than 2 pence per Ordinary Share at the date of exercise, thereby aligning the interests of recipients with those of shareholders. Some members of the Senior Management Team have additional performance criteria attached to a proportion of their share options, requiring trading overheads to be covered by recurring gross profits.

Of the 21,500,000 Employee Options issued during the year, 14,700,000 were granted to the Company's Chief Executive Officer Mark Halpin. As a member of the Concert Party created on 19 October 2019 when the Company acquired CloudCoCo Limited, the new Options granted to Mark Halpin carry further restrictions in that whilst the Concert Party, of which Mark is part, holds between 30 and 50 per cent of the share capital of the Company, these new options cannot be exercised without triggering the provisions of Rule 9 of the Takeover Code. These restrictions do not apply to the 7,500,000 existing options granted to Mark Halpin on 20 November 2020, as they were granted at a time when the Concert Party held more than 50 per cent of the Company's issued share capital.

## Notes to the consolidated financial statements (continued)

### 7.4 Share-based payments (continued)

In addition to the share options granted in the year, no share options lapsed (2021: 9,965,500) in accordance with the share issue documents. At 30 September 2022, the Company had granted the following outstanding share options:

	2022 Number	2022 Weighted average exercise price	2021 Number	2021 Weighted average exercise price
Outstanding at 1 October	48,225,000	1.0p	4,747,692	8.6p
Granted	21,500,000	1.0p	58,190,500	1.0p
Waived	—	8.6p	(4,747,692)	8.6p
Lapsed	—	1.0p	(9,965,500)	1.0p
Outstanding at 30 September	69,725,000	1.0p	48,225,000	1.0p

No options are vested and exercisable at the balance sheet date. No options expired during the periods covered by the tables above.

On 19 August 2022, the Group issued 21,500,000 share options to qualifying employees. The total number of share options outstanding at 30 September 2022 was 69,725,000 as follows:

Date granted	Balance 2022	Movement during the year	Balance 2021	Exercise price	Dates exercisable	Remaining contractual life (months)
20 November 2020	48,225,000	—	48,225,000	1.00p	20 November 2022–20 November 2030	110
19 August 2022	21,500,000	21,500,000	—	1.00p	19 August 2024–19 August 2032	119
Total	69,725,000	21,500,000	48,225,000	1.00p		

In determining the fair value of the share options granted on 20 November 2020 and 19 August 2022, the Company assessed the historical share price volatility associated with the Company's share price and the effective risk-free rate of interest inherent in the debt element of this instrument. The fair value of options issued during the year were calculated using a Black-Scholes model with inputs using an historical volatility rate of 14% (FY21: 40%) and a risk-free interest rate of 2.17% (FY21: 1%). The share price at grant date was 1.09p per share and no dividend yield was expected.

#### (ii) Non-employee share options and warrants

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

The share warrants can be exercised in the period commencing 3 March 2022 up to and including 3 March 2032. The exercise of the share warrants is conditional upon the Company's share price in the five consecutive days preceding relevant notice of exercise being not less than 2 pence per ordinary share and the prior six months' revenue from new or qualifying customers in the Acquired Companies being at least £3,200,000 calculated on the last day of the calendar month starting 50 days before the date of the relevant notice of exercise.

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

	2022 £'000	2021 £'000
Share options	117	217
Share warrants	2	—
Total	119	217

## 8. Income tax

	2022 £'000	2021 £'000
<b>Current tax</b>		
UK corporation tax for the period at 19% (2021: 19%)	—	—
<b>Deferred tax</b>		
Deferred tax credit/ (charge) on intangible assets	321	(83)
Total tax credit / (charge) for the year	321	(83)

The relationship between expected tax (credit) / expense based on the standard rate of tax in the UK of 19% (2021: 19%)



## Notes to the consolidated financial statements (continued)

### 8. Income tax (continued)

The tax expense actually recognised in the Consolidated Income Statement can be reconciled as follows:

	2022 £'000	2021 £'000
Loss for the year before tax:	<b>(2,608)</b>	(2,045)
Tax rate	<b>19%</b>	19%
Expected tax credit	<b>(496)</b>	(389)
Adjusted for:		
Non-deductible expenses	<b>57</b>	59
Change in tax rates	<b>—</b>	334
Differences in tax rates	<b>(1)</b>	(60)
Movement in unprovided deferred tax relating to losses	<b>150</b>	135
Short-term timing differences	<b>(31)</b>	4
Total tax (credit) / charge for the year	<b>(321)</b>	83

The Group has unrecognised deferred tax assets in respect of tax losses carried forward totalling £2,824,000 (2021: £2,196,000). There are no restrictions in the use of tax losses. Deferred tax assets remain unrecognised until it becomes probable that the underlying deductible temporary differences will be able to be utilised against future taxable income. During FY21, the substantively enacted tax rate increased from 19% to 25% with effect from 1 April 2023, and is applied in the measurement of deferred tax as reflected in the table above.

### 9. Loss per share

	2022 £'000	2021 £'000
Loss attributable to ordinary shareholders	<b>(2,287)</b>	(2,128)

Weighted average number of Ordinary Shares in issue, basic and diluted	<b>706,215,686</b>	510,759,930
Basic and diluted loss per share	<b>(0.32)p</b>	(0.42)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
<b>Cost</b>					
At 1 October 2020	9,835	182	1,657	9,280	20,954
Business combinations (note 24.1)	253	179	470	141	1,043
At 30 September 2021	<b>10,088</b>	<b>361</b>	<b>2,127</b>	<b>9,421</b>	<b>21,997</b>
Business combinations (note 24.2)	1,193	—	256	2,024	3,473
<b>At 30 September 2022</b>	<b>11,281</b>	<b>361</b>	<b>2,383</b>	<b>11,445</b>	<b>25,470</b>

#### Accumulated amortisation

At 1 October 2020	—	(158)	(978)	(3,594)	(4,730)
Charge for the year	—	(26)	(54)	(929)	(1,009)
At 1 October 2021	—	<b>(184)</b>	<b>(1,032)</b>	<b>(4,523)</b>	<b>(5,739)</b>
Charge for the year	—	(18)	(123)	(1,145)	(1,286)
<b>At 30 September 2022</b>	—	<b>(202)</b>	<b>(1,155)</b>	<b>(5,668)</b>	<b>(7,025)</b>

#### Impairment

At 1 October 2020	<b>(4,447)</b>	—	<b>(225)</b>	<b>(1,193)</b>	<b>(5,865)</b>
Charge in the year	—	—	—	—	—
At 1 October 2021	<b>(4,447)</b>	—	<b>(225)</b>	<b>(1,193)</b>	<b>(5,865)</b>
Charge in the year	—	—	—	—	—
<b>At 30 September 2022</b>	<b>(4,447)</b>	—	<b>(225)</b>	<b>(1,193)</b>	<b>(5,865)</b>

#### Carrying amount

<b>At 30 September 2022</b>	<b>6,834</b>	<b>159</b>	<b>1,003</b>	<b>4,584</b>	<b>12,580</b>
At 30 September 2021	5,641	177	870	3,705	10,393
<b>Average remaining amortisation period</b>		<b>8.8 years</b>	<b>8.2 years</b>	<b>4.0 years</b>	<b>4.5 years</b>

## Notes to the consolidated financial statements (continued)

### 10. Intangible assets (continued)

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are independent cash inflows (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 inflows. The directors concluded that at 30 September 2022, there were four CGUs being CloudCoCo Limited, CloudCoCo Connect Limited (formerly IDE Group Connect Limited), Systems Assurance Limited and More Computers Limited.

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

The calculations used to compute cash flows for the CGU level are based on the Group's Board approved budget for the next twelve months, and business plan, growth rates for the next five years, weighted average cost of capital ("WACC") and other known variables. The calculations are sensitive to movements in both WACC and the revenue growth projections. The impairment calculations were performed using post-tax cash flows at post-tax WACC of 13.25% (FY21: 11.25%) for each CGU. The pre-tax discount rate (weighted average cost of capital) was calculated at 18% per annum (FY21:15%) and the revenue growth rate is 5% per annum (FY21: 5%) for each CGU for 5 years and a terminal growth rate of 2% (FY21: 2%).

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

#### Sensitivity analysis

£'000	CloudCoCo Limited	Systems Assurance Limited	More Computers Limited	CloudCoCo Connect Limited <sup>1</sup>
<b>Excess of recoverable amount over carrying value:</b>				
Base case – headroom	1,839	469	382	2,908
Pre-tax discount rate increased by 1% - resulting headroom	1,448	424	369	2,756
Revenue growth rate reduced in years 2 to 5 by 1% per annum – resulting headroom	1,148	397	353	2,222

Base case calculations highlight that the impairment review in respect of CloudCoCo Limited is most sensitive to the discount rate and growth rate. Headroom was also evident when applying a growth rate of 2% in years 2 to 5 in each of the CGU's but would trigger an impairment of £316,000 in CloudCoCo Limited.

<sup>1</sup> formerly IDE Group Connect Limited

### 11. Property, plant and equipment

	Right of Use Assets £'000	IT equipment £'000	Fixtures, fittings and leasehold improvements £'000	Total £'000
<b>Cost of assets</b>				
At 1 October 2020	336	243	41	620
Additions	—	24	7	31
Disposals	(58)	—	—	(58)
Business combinations (note 24.1)	—	—	1	1
<b>At 30 September 2021</b>	<b>278</b>	<b>267</b>	<b>49</b>	<b>594</b>
Additions	680	115	—	795
Modifications	378	—	—	378
Disposals	—	(190)	(20)	(210)
Business combinations (note 24.2)	303	9	2	314
<b>At 30 September 2022</b>	<b>1,639</b>	<b>201</b>	<b>31</b>	<b>1,871</b>
<b>Depreciation</b>				
At 1 October 2020	164	194	41	399
Charge for the year	68	27	2	97
Disposals	(51)	—	—	(51)
<b>At 30 September 2021</b>	<b>181</b>	<b>221</b>	<b>43</b>	<b>445</b>
Charge for the year	644	42	8	694
Disposals	—	(190)	(20)	(210)
<b>At 30 September 2022</b>	<b>825</b>	<b>73</b>	<b>31</b>	<b>929</b>
<b>Net book value</b>				
<b>At 30 September 2022</b>	<b>814</b>	<b>128</b>	<b>—</b>	<b>942</b>
At 30 September 2021	97	46	6	149

## Notes to the consolidated financial statements (continued)

### 11. Property, plant and equipment (continued)

The net book value of right of use assets at 30 September 2022 comprised:

	Land & buildings £'000	Data Centre Assets £'000	Motor Vehicles £'000	Total £'000
<b>At 30 September 2022</b>	<b>55</b>	<b>756</b>	<b>3</b>	<b>814</b>
At 30 September 2021	85	—	12	97

The depreciation charge in respect of right of use assets comprises £530k in respect of data centre assets and £114k in respect of property and other assets. Data centre assets are described in more detail in Note 20.

### 12. Inventories

	2022 £'000	2021 £'000
Consumables	81	57
Work in progress	84	29
<b>Inventories</b>	<b>165</b>	<b>86</b>

### 13. Trade and other receivables

	2022 £'000	2021 £'000
Trade receivables	2,936	1,781
Other debtors	244	112
Prepayments	1,586	828
<b>Trade and other receivables</b>	<b>4,766</b>	<b>2,721</b>

The Group reviews the amount of expected credit loss associated with its trade receivables and contract assets under IFRS 9 based on forward looking estimates that take into account current and forecast credit conditions as opposed to relying on past historical default rates. In adopting IFRS 9 the Group applied the Simplified Approach applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customers with different credit risk profiles and current and forecast trading conditions. At 30 September 2022 trade receivables amounting to £710,000 (2021: £281,000) were past due but not impaired. The age of trade receivables not impaired is as follows:

	2022 £'000	2021 £'000
Less than 30 days	1,391	1,062
30–59 days	248	293
60–89 days	587	145
90–119 days	183	32
120+ days	527	249
	<b>2,936</b>	<b>1,781</b>

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 37 days (2021: 40 days). Trade receivables are stated net of an impairment for estimated irrecoverable amounts of £415,000 (2021: £45,000) as follows:

	2022 £'000	2021 £'000
Opening impairment provision	45	153
Business Combinations	345	15
Subsequently recovered from customers	(5)	(124)
Unrecoverable balances from customers written-off	(10)	(37)
Provision in year	40	38
<b>Impairment provision at 30 September 2022</b>	<b>415</b>	<b>45</b>

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

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

## Notes to the consolidated financial statements (continued)

### 13. Trade and other receivables (continued)

Specific provisions are also made based on known issues.

Category	2022 £'000 Gross Trade Receivables	2022 £'000 Impairment Provision	2022 £'000 Net Trade Receivables	2022 Impairment Rate
Top 10 customers	1,151	(189)	962	16.4%
Next 50 customers	1,053	(42)	1,011	4.0%
Other customers	1,147	(184)	963	16.0%
	<b>3,351</b>	<b>(415)</b>	<b>2,936</b>	<b>12.4%</b>

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

#### 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. Contract assets

	2022 £'000	2021 £'000
Contract assets	<b>558</b>	<b>232</b>

Contract assets relate to the Group's right to consideration in respect of goods or services that the Group has transferred to a customer. Contract assets are linked to recurring Managed IT services revenues, which have increased as a result of the acquisitions made in late 2021.

#### 15. Cash and cash equivalents

	2022 £'000	2021 £'000
Cash at bank and in hand	<b>1,516</b>	<b>1,183</b>

Cash balances are held with a small number of counterparties. There were no other borrowing facilities in place at 30 September 2022 other than the loan notes issued to MXC Guernsey Limited and the COVID-19 Bounce Back Loan (Note 17).

#### 16. Trade and other payables

	2022 £'000	2021 £'000
Trade payables	<b>4,717</b>	2,008
Accruals	<b>1,448</b>	433
Other taxes and social security costs	<b>725</b>	431
<b>Trade and other payables</b>	<b>6,890</b>	2,872

## Notes to the consolidated financial statements (continued)

### 17. Contract liabilities

The aggregate amount of the transaction price (the total contract value) allocated to unsatisfied performance obligations at 30 September 2022 was £10.9 million (2021: £3.7 million) and is expected to be recognised as revenue in future periods as follows:

	2022 £'000	2021 £'000
Within 6 months	1,209	1,219
6 to 12 months	2,054	827
12 to 24 months	2,099	1,174
Greater than 24 months	5,511	478
	<b>10,873</b>	<b>3,698</b>

### 18. Provision for onerous contracts

	2022 £'000	2021 £'000
Provisions for onerous contracts – short-term element	148	—
Provisions for onerous contracts – long-term element	927	—
Provisions for onerous contracts	<b>1,075</b>	<b>—</b>

As part of the acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited) the Group become party to a number of onerous contracts for redundant dark-fibre circuits that remain under term contracts which expire over numerous accounting periods up until November 2032. The total amount payable over the term in relation to onerous contracts is £1.3 million and was reflected in the lower acquisition price paid for the business in October 2021.

	2022 £'000	2021 £'000
Opening balance	—	—
Business combinations (see note 24.2)	1,199	—
Payments	(163)	—
Unwinding of discount	39	—
Closing balance	<b>1,075</b>	<b>—</b>

An onerous contract is one where the cost of fulfilling the contract exceeds the economic benefits that will be received. In other words, it is a contract that is expected to result in a loss. Under IFRS, we are required to recognise the expected losses from an onerous contract as a liability in the financial statements.

The recognition of the onerous liability is based on a reliable estimate of the expected costs and benefits of the contract. The liability has been recognised in the opening balance sheet for Connect and has been measured at the present value of the expected future cash outflows, using a discount rate equivalent to the current risk-free rate of government bonds over the term of the onerous contracts. The provision for these contracts at 30 September 2022 were £1.1 million (2021: nil).

### 19. Borrowings

#### 19.1 Current

	2022 £'000	2021 £'000
COVID-19 Bounce-back loan repayable – short-term element	19	17
Deferred consideration for acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited) - short-term element	50	—
Deferred consideration for acquisition of Systems Assurance Limited and More Computers Limited	—	155
	<b>69</b>	<b>172</b>

#### 19.2 Non-current

	2022 £'000	2021 £'000
Loan notes	3,908	3,412
Accrued interest on loan notes repayable in October 2024	650	496
Loan notes	4,558	3,908
Deferred consideration for acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited) - long-term element	102	—
COVID-19 Business Bounce-back loan acquired with More Computers Limited	—	44
COVID-19 Business Bounce-back loan repayable – long-term element	63	39
	<b>4,723</b>	<b>3,991</b>

## Notes to the consolidated financial statements (continued)

### 19.2 Non-current (continued)

On 10 May 2021, 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 2022.

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

### 19.3 Net debt – net debt comprises:

	2022 £'000	Cash movements £'000	Other movements £'000	2021 £'000
Loan notes (see note 21)	4,558	—	650	3,908
COVID-19 Bounce-back loans	82	(18)	—	100
Deferred consideration	152	(180)	177	155
Lease liabilities	845	(813)	1,561	97
Cash and cash equivalents	(1,516)	(333)	—	(1,183)
<b>Total</b>	<b>4,121</b>	<b>(1,344)</b>	<b>2,388</b>	<b>3,077</b>

## 20. Lease Liabilities

The acquisition of the Connect business delivered with it 32 data centre locations. The majority of data centres are leased from third-party suppliers on renewable contract terms of up to 5 years in duration. Many of these data centre leases can be auto-renewed, resized or terminated in the months leading up to the end of the term, creating a new or modified leases in excess of twelve months, which then fall under IFRS16 as a right of use asset with associated lease.

During the year, the Group entered into new or modified IFRS16 right of use leases of £1.1 million. Those leases, which had less than 12 months remaining on the date of acquisition, were treated as short-term leases up until the point at which they were renewed or modified.

	2022 £'000	2021 £'000
Opening balance	97	183
Additions	711	—
Modifications	378	—
Leases acquired on the acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited)	397	—
Leases acquired on the acquisition of Systems Assurance Limited	—	34
Related interest expense	75	8
Repayment of lease liabilities	(813)	(128)
Closing balance	845	97

	2022 £'000	2021 £'000
Current	733	86
Non-current	112	11
	845	97

The total cash outflows from leases (including lower value and short-life leases) in the financial year was £2,351,000 (2021: £154,000) of which £1,538,000 relates to short-life leases (2021: £34,000).

## 21. Financial instrument

As part of a loan note consolidation on 21 October 2019, the Company agreed to modify a loan note originally provided to Business Growth Fund ("BGF") on 26 May 2016. The original loan note contained a provision for share options which were immediately exercised. The directors considered 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, was derecognised and recorded in equity.

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

## Notes to the consolidated financial statements (continued)

### 22. Deferred tax liabilities

	Deferred tax on acquired intangibles £'000
<b>Deferred tax liability at 1 October 2020</b>	<b>940</b>
Deferred tax on acquisition of Systems Assurance Limited	165
Change in effective tax rate from 19% to 25%	334
Credited to income statement – on intangibles	(251)
<b>Deferred tax liability at 30 September 2021</b>	<b>1,188</b>
Deferred tax on acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited)	559
Credited to income statement – on intangibles	(321)
<b>Deferred tax liability at 30 September 2022</b>	<b>1,426</b>

### 23. 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.

#### 23.1 Placing

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

#### 23.2 Share capital

*Shares issued and fully paid*

	2022 £'000	2021 £'000
Beginning of year	7,062	4,952
Issue of 210,990,000 shares at 1p per share via a Placing	—	2,110
Shares issued and fully paid	<b>7,062</b>	<b>7,062</b>

*Share capital allotted, called up and fully paid*

	2022 No. Ordinary Shares	2021 No. Ordinary Shares
<b>Ordinary shares of £0.01p</b>	<b>706,215,686</b>	<b>706,215,686</b>

## Notes to the consolidated financial statements (continued)

### 23.2 Share premium

	2022 £'000	2021 £'000
Beginning of year	17,630	17,630
End of year	17,630	17,630

### 23.3 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.

### 23.4 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.

### 23.5 Other reserve

	2022 £'000	2021 £'000
Beginning of year	339	122
Share based payments adjustment	119	217
End of year	458	339

### 23.6 Retained earnings

	2022 £'000	2021 £'000
Beginning of year	(28,342)	(26,214)
Arising on loss and total comprehensive loss for the period	(2,287)	(2,128)
End of year	(30,629)	(28,342)



## Notes to the consolidated financial statements (continued)

### 24. Acquisitions during the year

#### 24.1 Acquisition of Systems Assurance Limited

On 6 September 2021, the Group acquired the entire issued share capital of Systems Assurance Limited and its wholly owned subsidiary More Computers Limited, for £1.72 million, including the return of £731,000 of excess cash-assets to the vendors to acquire the business on a cash-free debt-free basis. The remaining £991,000 was settled as £836,000 on completion with the remaining £155,000 being paid in November 2022, following agreement of the Completion Statement.

The Group has assessed the combined fair value of the acquisition of Systems Assurance Limited and More Computers Limited as follows:

	Book Cost £'000	Fair Value Adjustment £'000	Fair Value £'000
<b>Non-current assets</b>			
Intangible assets – brand	—	470	<b>470</b>
Intangible assets – IT systems	—	179	<b>179</b>
Intangible assets – customer lists	—	141	<b>141</b>
Property, plant and equipment	1	34	<b>35</b>
Total non-current assets	1	824	<b>825</b>
<b>Current assets</b>			
Inventories	31	—	<b>31</b>
Trade and other receivables	967	—	<b>967</b>
Cash at bank	1,004	—	<b>1,004</b>
Total current assets	2,002	—	<b>2,002</b>
<b>Total assets</b>	<b>2,003</b>	<b>824</b>	<b>2,827</b>
<b>Current liabilities</b>			
Lease liability	—	(28)	<b>(28)</b>
Trade and other payables	(1,049)	—	<b>(1,049)</b>
Other taxes and social security costs	(52)	—	<b>(52)</b>
Deferred Income and accruals	(8)	—	<b>(8)</b>
	(1,109)	(28)	<b>(1,137)</b>
<b>Non-current liabilities</b>			
Borrowings	(50)	—	<b>(50)</b>
Lease liability	—	(6)	<b>(6)</b>
Deferred tax liability	—	(165)	<b>(165)</b>
<b>Total liabilities</b>	<b>(1,159)</b>	<b>(199)</b>	<b>(1,358)</b>
<b>Net Assets</b>	<b>844</b>	<b>625</b>	<b>1,469</b>
Consideration in cash - cash-free debt-free payment paid to			<b>731</b>
Consideration in cash - initial consideration			<b>836</b>
Consideration in cash - deferred consideration			<b>155</b>
<b>Fair value of cost of acquisition</b>			<b>1,722</b>
<b>Goodwill</b>			<b>253</b>
Cash used to acquire the business net of cash acquired:			<b>£'000</b>
Cash at bank			<b>1,004</b>
Less cash-free debt-free payment paid to vendors			<b>(731)</b>
Net cash acquired			<b>273</b>
Acquisition date fair value of initial consideration transferred			<b>(836)</b>
Net cash used			<b>(563)</b>

Costs associated with the acquisition were £202,000 and were expensed during the year to September 2021 and were included in the statement of profit or loss and in operating cash flows in the statement of cash flows. The fair value of trade receivables was £968,000, with gross contractual amounts for trade receivables due of £983,000 of which £15,000 is not expected to be collected.

## Notes to the consolidated financial statements (continued)

### 24.2 Acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited)

On 19 October 2021, the Company acquired IDE Group Connect Limited and its subsidiary Nimoveri Limited (together, the "Acquisitions") from IDE Group Holdings PLC ("IDE") for a deferred consideration of £250,000, funded via a loan note from IDE for £250,000 to be repaid over five years with an annual interest rate of Bank of England base rate +3% with no payments due in the first six months. The fair value of the deferred consideration, £143,000, was measured using a rate of 12% reflecting the company's cost of borrowing based on its loan notes.

The acquisition of Connect and Nimoveri was a related party transaction pursuant to rule 13 of the AIM Rules for Companies, due to MXC Guernsey Limited owning 10.6% of the Company's issued share capital and 34.8% of IDE's issued share capital. The Directors of the Company (save for Jill Collighan who was not deemed independent for this purpose) having consulted with the Company's Nominated Adviser, agreed that the terms of the transaction were fair and reasonable insofar as the Company's shareholders were concerned. The Group assessed the fair value of the acquisition of CloudCoCo Connect Limited as follows:

	Book Cost £'000	Fair Value Adjustment £'000	Fair Value £'000
<b>Non-current assets</b>			
Intangible assets – brand	—	256	256
Intangible assets – customer lists	15	2,009	2,024
Property, plant and equipment	11	—	11
Right of use assets	—	303	303
<b>Total non-current assets</b>	<b>26</b>	<b>2,568</b>	<b>2,594</b>
<b>Current assets</b>			
Trade and other receivables	1,382	(74)	1,308
Cash at bank	497	—	497
<b>Total current assets</b>	<b>1,879</b>	<b>(74)</b>	<b>1,805</b>
<b>Total assets</b>	<b>1,905</b>	<b>2,494</b>	<b>4,399</b>
<b>Current liabilities</b>			
Lease liability	(92)	(258)	(350)
Trade and other payables	(1,838)	207	(1,631)
Other taxes and social security costs	(192)	—	(192)
Contract liabilities	(1,063)	—	(1,063)
Provisions for onerous contracts	—	(160)	(160)
Accruals	(382)	—	(382)
	<b>(3,567)</b>	<b>(211)</b>	<b>(3,778)</b>
<b>Non-current liabilities</b>			
Contract liabilities	(15)	—	(15)
Lease liability	(2)	(45)	(47)
Provisions for onerous contracts	—	(1,039)	(1,039)
Deferred tax liability	—	(570)	(570)
<b>Total liabilities</b>	<b>(3,584)</b>	<b>(1,865)</b>	<b>(5,449)</b>
<b>Net Liabilities</b>	<b>(1,679)</b>	<b>629</b>	<b>(1,050)</b>
Consideration in cash			—
Fair value of deferred consideration loan			143
<b>Fair value of cost of acquisition</b>			<b>143</b>
<b>Goodwill</b>			<b>1,193</b>

	2021 £'000
Cash consideration paid	-
Cash acquired	497
Acquisition of CloudCoCo Connect Limited net of cash	497

The goodwill arising on this acquisition was attributable to the management team, technical skills and product knowledge and know-how, which will benefit the Group. Direct acquisition costs amounting to £58,000 were written off to the income statement within exceptional items and included in cash flows from operating activities.

## Notes to the consolidated financial statements (continued)

### 24.2 Acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited) (continued)

The acquisition of Connect added a core fibre network and 32 data centre locations to the Group. The acquisition contained a number of onerous contracts for redundant dark-fibre circuits that remain under term contracts which expire over numerous accounting periods up until November 2032. The total amount payable over the term in relation to onerous contracts is £1.3 million and was reflected in the lower acquisition price paid for the business in October 2021. This was recorded at fair value in the acquired balance sheet as a provision of £1.2 million.

The majority of data centres are leased from third-party suppliers on renewable contract terms of up to 5 years in duration. Many of these data centre leases can be modified in the months leading up to renewal, creating a new or modified leases in excess of twelve months, which then fall under IFRS16 as a right of use asset with associated lease. These new or modified leases are recorded at fair value in the acquired balance sheet at £0.3 million as right of use assets.

Gross trade receivables acquired were £1,653,000 before a loss allowance of £271,000. Further analysis showed an additional loss allowance of £74,000 was required and was recognised on acquisition, giving a net trade receivables balance of £1,308,000.

The Group acquired over 300 business customers as part of the business combination with Connect. Intangible assets in respect of customer lists reflect the contractual recurring nature of the entity's revenue base. The fair value of the customer lists was estimated by discounting the future cashflows that will be generated from the acquired customer base, including an estimate of customer attrition over time. During the year, the Connect acquisition contributed £11.6 million of revenues. Due to the use of shared overheads it is not possible to accurately calculate the impact that the acquisition had on operating profits during the year.

### 25. 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 20 and 21. The Directors are also considered to be the Group's Key Management Personnel and their remuneration details can be found in Note 7.

Mark Halpin, a Director of the Company had a 19.9% holding in the shares of the Company at 30 September 2022 and is considered to have a significant influence over the Group. Jill Collighan, a Director of the Company, is an employee of MXC Capital (UK) Limited ("MXC"), a wholly owned subsidiary of MXC Guernsey Limited ("MXCG"). At 30 September 2022, MXCG had a 10.6% holding in the shares of the Company and is considered to have a significant influence over the Group. No other Director had a material interest in any significant contract with the Company or any of its subsidiaries during the year save for those disclosed in the accounts.

During the year the Company purchased services including Non-Executive fees for Andy Mills of £37,866 (2021: £28,266) from CoCoNitro Limited, a company jointly owned by Mark Halpin and Andy Mills, of which £38,200 (2021: £31,800) was outstanding at the financial year end. In addition, during the year CloudCoCo Limited, sold £39,000 (2021: £219,000) of IT services and hardware to ViVoTech Limited, a Leeds based IT company in which CoCoNitro owns 50%. ViVoTech owed CloudCoCo Limited £34,000 at 30 September 2022 (2021: £6,000)

Fees invoiced by MXC to the Company include £36,000 (2021: £32,000) for Jill Collighan's services as Non-Executive Director, included as directors' emoluments in Note 7. Additionally, corporate finance advisory and transaction services were purchased from MXC as financial adviser to the Company. The Group purchased services totalling £66,000 (2021: £60,000) from MXC and at 30 September 2022 owed £145,400 to MXC (2021: £310,000).

As part of a refinancing in October 2019, MXCG, acquired £3.5 million loan notes of the Company, the terms of which were varied such that interest is charged at 12% compound per annum rolled up and payable only at the end of the term, which was also extended to October 2024 with no repayment due until that date unless the Company chooses to pay early. At 30 September 2022, the Company owed MXCG £4.9 million (2021: £4.4 million) in respect of the loan notes.

### 26. Contingent liabilities

There are no contingent liabilities at 30 September 2022 (2021: £nil).

### 27. Risk management

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

#### 27.1 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.

#### 27.2 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 £30,000 (2021: £10,000). The interest rate charged on finance leases and commercial loans is a fixed rate agreed at the time of signing the agreement. The interest rate charged by MXCG is at a fixed rate. No interest rate sensitivity analysis has been disclosed as the majority of the Group's borrowings are fixed.

## Notes to the consolidated financial statements (continued)

### 27.3 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 35.

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.

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.

### 27.4 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.

### 27.5 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:

	Financial assets £'000	Non-financial assets £'000	Balance Sheet total £'000
<b>2022</b>			
Trade and other receivables	3,180	1,586	4,766
Other current assets	—	165	165
Cash at bank and in hand	1,516	—	1,516
	<b>4,696</b>	<b>1,751</b>	<b>6,447</b>

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

Book value approximates to fair value.

	Other financial liabilities at amortised cost in the balance sheet £'000	Other liabilities not within scope of IFRS 9 £'000	Balance sheet total £'000
<b>2022</b>			
Trade and other payables - short-term element	6,166	—	6,166
Contract liabilities – short-term element	—	1,891	1,891
Contract liabilities – long-term element	—	601	601
Borrowings – short-term element	69	—	69
Borrowings – long-term element	4,723	—	4,723
Provision for onerous contracts – short-term element	—	148	148
Provision for onerous contracts – long-term element	—	927	927
Lease liability – short-term element	—	733	733
Lease liability – long-term element	—	112	112
	<b>10,958</b>	<b>4,412</b>	<b>15,370</b>

Book value approximates to fair value.

## Notes to the consolidated financial statements (continued)

### 27.5 Risk management analysis (continued)

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

Book value approximates to fair value.

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

	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
<b>2022</b>							
Trade payables	2,047	2,415	157	98	—	—	4,717
Borrowings	3	6	9	6,219	—	—	6,237
Lease liabilities	140	261	333	178	12	—	924
	<b>2,190</b>	<b>2,682</b>	<b>499</b>	<b>6,495</b>	<b>12</b>	<b>0</b>	<b>11,878</b>
<b>2021</b>							
Trade payables	1,250	758	—	—	—	—	2,008
Borrowings	158	6	8	—	6,168	—	6,340
Lease liabilities	17	35	49	10	—	—	111
	<b>1,425</b>	<b>799</b>	<b>57</b>	<b>10</b>	<b>6,168</b>	<b>—</b>	<b>8,459</b>

### 28. Post Balance Sheet events

There are no post balance sheet events to report.

### 29. Ultimate controlling party

There is no ultimate controlling party.

# Statement of financial position (parent company)

as at 30 September 2022

	Note	30 September 2022 £'000	30 September 2021 £'000
<b>Fixed assets</b>			
Fixed asset investments	6	298	195
<b>Total fixed assets</b>		<b>298</b>	195
<b>Current assets</b>			
Debtors	7	9,094	10,277
Cash at bank and in hand		14	527
<b>Total current assets</b>		<b>9,108</b>	10,804
<b>Creditors: amounts falling due within one year</b>	8	<b>(286)</b>	(733)
<b>Net current assets</b>		<b>8,822</b>	10,071
<b>Total assets less current liabilities</b>		<b>9,120</b>	10,266
<b>Creditors: amounts falling due in more than one year</b>	9	<b>(4,686)</b>	(3,944)
<b>Net assets</b>		<b>4,434</b>	6,322
<b>Capital and reserves</b>			
Called up share capital	11	7,062	7,062
Share premium account	11	17,630	17,630
Capital redemption reserve		6,489	6,489
Merger reserve		1,997	1,997
Other reserve		458	339
Retained earnings		(29,202)	(27,195)
<b>Shareholders' funds</b>		<b>4,434</b>	6,322

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 £2,007,000 (2021: £1,921,000).

Approved by the Board and authorised for issue on 15 March 2023.

Darron Giddens

**Director**

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

**Company number: 05259846**

## Statement of changes in equity (parent company)

for the year ended 30 September 2022

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

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
<b>At 1 October 2021</b>	<b>7,062</b>	<b>17,630</b>	<b>6,489</b>	<b>1,997</b>	<b>339</b>	<b>(27,195)</b>	<b>6,322</b>
Loss and total comprehensive loss for the period	—	—	—	—	—	(2,007)	(2,007)
<b>Transactions with owners in their capacity as owners</b>							
Share-based payments	—	—	—	—	119	—	119
<i>Total transactions with owners</i>	—	—	—	—	119	—	119
<i>Total movements</i>	—	—	—	—	119	(2,007)	(1,888)
<b>Equity at 30 September 2022</b>	<b>7,062</b>	<b>17,630</b>	<b>6,489</b>	<b>1,997</b>	<b>458</b>	<b>(29,202)</b>	<b>4,434</b>

The accompanying accounting policies and notes on pages 62 to 67 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 2022 totalling £3.0 million compared to £5.2 million at the end of FY21. The acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited) (“Connect”) contributed cash to the Group and the net cash inflow from operating activities exceeded lease payments.

The Group’s progress towards its key objectives of increasing sales, reducing customer churn, reducing costs, and returning to net cash generation is described in the Strategic Report. Despite continued uncertainty and disruption as a result of the cost of living crisis and the initial losses incurred when acquiring the originally distressed Connect business, the Group reported a 129% percent improvement in underlying profitability as measured by Trading Group EBITDA<sup>1</sup> (2022: £1.6 million; 2021: £0.7 million). Cash inflow from operating activities before acquisition costs was £1.0 million (FY21: £0.3 million cash outflow) and cash balances increased by £0.3m overall.

The Strategic Report on pages 10 to 12 describes the risks associated with the Group’s activities which are reviewed by the Directors on a regular basis. The key operational risk the Group faces is the general economic outlook including the energy costs crisis and uncertainty caused by the cost of living crisis. Although COVID-19 did not have a material impact on the Group’s ability to operate in FY22, it did result in some delays in sales cycles for certain services and delays in project delivery as customers continued to assess the impact of COVID-19 on their own businesses. In addition, there is financial, operational and executional risk associated with the business combinations completed in late 2021, as described in notes 19 and 24.

The Directors have reviewed the forecast sales growth, budgets and cash projections for the period to September 2024, including sensitivity analysis on the key assumptions such as the potential impact of reduced sales or slower cash receipts, for the next twelve months and the Directors have reasonable expectations that the Group and the Company have adequate resources to continue operations for the period of at least one year from the date of approval of these financial statements. The Directors have not identified any material uncertainties that may cast doubt over the ability of the Group and Company to continue as a going concern and the Directors continue to adopt the going concern basis in preparing these financial statements.

### 1.2 Compliance with accounting standards

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

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

### 1.3 Investments

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

### 1.4 Pensions

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

### 1.5 Share-based remuneration

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



## Notes to the parent company financial statements (continued)

### 1.6 Critical accounting judgements and key sources of estimation uncertainty

#### *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 £9.3 million (2021: £10.2 million) is recorded in the Company's Balance Sheet and relates to the amounts owed by subsidiary undertakings after impairment. At the end of each period, the minimum level of impairment provided is calculated such that the net assets of the Company are equal to the net assets of the Group excluding deferred tax liabilities relating to intangible assets. In addition, a full line-by-line review of the debtors is carried out for any further impairment. Whilst every attempt is made to ensure that the impairment provision is as accurate as possible, there remains a risk that the provisions do not match the level of debts which ultimately prove to be uncollectable.

### 1.7 Financial assets

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

### 1.8 Financial liabilities

Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the Group becomes a party to the contractual provisions of the instrument. Loan notes are raised for support of long-term funding of the Group's operations. The financial liability arising on the loan notes is carried at amortised cost. In the financial statements at 30 September 2021, loan notes were treated as a compound instrument as if the options granted to the lender represented an option to convert loan notes into equity.

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

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

## 2. Auditor remuneration

Fees payable to the Company's Auditor for the audit of the parent company's annual accounts were £30,000 (2021: £20,000).

## 3. Employee costs

The average number of staff employed by the Company during the year was 5 (2021: 5). These were all Directors. The costs for the year were £333,000 (2021: £312,000). Further detail is provided in note 7 to the consolidated financial statements.

## 4. Pension payments

The Company made pension payments of £3,600 during the year (2021: £2,000). Further detail is provided in note 7 to the consolidated financial statements.

## 5. Share-based payments

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

## Notes to the parent company financial statements (continued)

### 6. Fixed asset investments

	£'000
At 1 October 2020	1
Additions	194
At 30 September 2021	195
Additions	103
<b>At 30 September 2022</b>	<b>298</b>

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

At 30 September 2022 the Company had one subsidiary undertaking.

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

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

Company	Principal activity	Net liabilities £'000	Loss for the year £'000
CloudCoCo Holdings Limited	Intermediate holding company	11,075	45

At 30 September 2022, the Company had the following direct and indirect subsidiaries:

#### Active companies

Subsidiary company	Holding	Country of incorporation	Shares	Nature of business
CloudCoCo Holdings Limited	100%	Scotland	Ordinary	Holding company
Indirectly held				
CloudCoCo Limited	100%	England and Wales	Ordinary	IT Managed Services
Systems Assurance Limited	100%	England and Wales	Ordinary	IT Managed Services
More Computers Limited	100%	England and Wales	Ordinary	IT Hardware e-commerce
CloudCoCo Connect Limited (formerly IDE Group Connect Limited)	100%	England and Wales	Ordinary	IT Manged Services

#### Dormant companies

Indirectly held subsidiary company	Holding	Country of incorporation	Shares	Nature of business
Pinnacle CDT Limited	100%	England and Wales	Ordinary	Dormant
CloudCoCo Managed IT Limited	100%	England and Wales	Ordinary	Dormant
Ancar-B Technologies Limited	100%	England and Wales	Ordinary	Dormant
Nimoveri Limited	100%	England and Wales	Ordinary	Dormant
Nimoveri Holdings Limited	100%	England and Wales	Ordinary	Dormant

## Notes to the parent company financial statements (continued)

For the year ending 30 September 2022 the following subsidiaries of the Company were entitled to exemption from audit under s479C of the Companies Act 2006. The Company having issued a parent guarantee to each of the subsidiaries below:

Subsidiary Name	Registered Office	Companies House Registration Number
CloudCoCo Holdings Limited	12/13 St Andrew Square, Edinburgh, EH2 2AF	SC102302
Systems Assurance Limited	Carwood Park, Selby Road, Swillington Common, Leeds,	02691103
More Computers Limited	Carwood Park, Selby Road, Swillington Common, Leeds,	04666684

For the year ending 30 September 2022 the following dormant subsidiaries of the Company were entitled to exemption from audit under s479A of the Companies Act 2006. The Company having issued a parent guarantee to each of the subsidiaries below:

Subsidiary Name	Registered Office	Companies House Registration Number
CloudCoCo Managed IT Limited	Carwood Park, Selby Road, Swillington Common, Leeds, LS15 4LG	06056115
Pinnacle CDT Limited	The Walbrook Building ,25 Walbrook, London, EC4N 8AF	04613699
Ancar-B Technologies Ltd	The Walbrook Building ,25 Walbrook, London, EC4N 8AF	03347248
Nimoveri Limited	The Walbrook Building ,25 Walbrook, London, EC4N 8AF	04139442
Nimoveri Holdings Limited	The Walbrook Building ,25 Walbrook, London, EC4N 8AF	11273706

### 7. Debtors

	2022 £'000	2021 £'000
Amounts owed by subsidiary undertakings	9,047	10,158
Prepayments	30	63
Other taxes and social security costs	17	56
	<b>9,094</b>	<b>10,277</b>

The charge in the period for impairment of amounts owed by subsidiary undertakings was £0.7 million, (FY21: £0.5 million). The amounts owed by subsidiaries are unsecured, interest free and are repayable on demand.

### 8. Creditors: amounts falling due within one year

	2022 £'000	2021 £'000
Trade creditors	11	529
COVID-19 Bounce back loan repayable – short-term element	10	11
Accruals	215	193
Deferred consideration for the acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited) – short term element	50	—
	<b>286</b>	<b>733</b>

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

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

	2022 £'000	2021 £'000
Loan notes	4,556	3,909
COVID-19 Bounce back loan repayable – long-term element	28	35
Deferred consideration for the acquisition of CloudCoCo Connect Limited (formerly IDE Group Connect Limited) – short term element	102	—
	<b>4,686</b>	<b>3,944</b>

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

### 10. Financial instrument

The Company has loan notes in issue and further detail is provided in note 21 of the consolidated financial statements.

## Notes to the parent company financial statements (continued)

### 11 Share capital and reserves

Share capital and reserves comprises the following:

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

#### 11.1 Placing

On 2 September 2021, the Company raised £2.1 million before expenses through a conditional Placing arranged by Allenby Capital Limited of 210,990,000 new Ordinary Shares at a price of 1 penny per share to fund growth by acquisition and provide additional working capital to fund the subsequent integration. The Placing was carried out at an approximate 13 per cent. discount to the Company’s closing price of 1.15p per share on Monday 16 August 2021. Costs relating to the Placing were £171,000 and were expensed in the income statement during the year to 30 September 2021.

#### 11.2 Share capital

Shares issued and fully paid

	2022 £'000	2021 £'000
Beginning of year	7,062	4,952
Issued of 210,990,000 shares at 1p per share via a Placing (see note 11.1)	—	2,110
Shares issued and fully paid	7,062	7,062

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

	2022 No. Ordinary Shares	2021 No. Ordinary Shares
Beginning of year	706,215,986	495,225,986
Issued of 210,990,000 shares at 1p per share via a Placing (see note 11.1)	—	210,990,000
End of year	706,215,986	706,215,986

#### 11.3 Share premium

	2022 £'000	2021 £'000
Beginning of year	17,630	17,630
End of year	17,630	17,630

#### 11.4 Capital redemption reserve

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

#### 11.5 Merger reserve

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

#### 11.6 Other reserve

The Other reserve relates to share-based employee remuneration to be settled in equity. Further detail is provided in note 7 of the consolidated financial statements.

## Notes to the parent company financial statements (continued)

### 12. Related party transactions

There were related party transactions during the year. Further detail is provided in note 25 of the consolidated financial statements.

### 13. Contingent liabilities

There are no contingent liabilities at 30 September 2022 (2021: nil).

### 14. Post Balance Sheet events

There are no post balance sheet events.

# Directors, Secretary and advisers

## Directors

**Simon Duckworth OBE DL**  
Non-Executive Chairman

**Jill Collighan**  
Non-Executive Director

**Andy Mills**  
Non-Executive Director

**Mark Halpin**  
Chief Executive Officer

**Darron Giddens**  
Chief Financial Officer

## Company Secretary

Darron Giddens

## Company number

05259846

## Registered office

5 Fleet Place  
London  
EC4M 7RD

## Nominated adviser and broker

Allenby Capital Limited  
5 St Helens Place  
London  
EC3A 6AB

## Auditors

RSM UK Audit LLP  
20 Chapel Street  
Liverpool  
L3 9AG

## Solicitors

DAC Beachcroft LLP  
25 Walbrook  
London  
EC4N 8AF



# CLOUDCOCO

THE FUTURE STARTS NOW

We are founded, led and powered by some of the brightest minds in business IT who are passionate about using technology to help people and to drive lasting change - a talented crew of technology superheroes laser-focused on your business's success.

Since 2006, we've been helping UK businesses of all sizes and industries succeed by providing enterprise-grade managed IT services that work harder for your business.

## WHY INVEST?

### Big Ambitions, Clear Strategy

Our objective is to become a leading UK Managed Services business, generating £100m in revenue, through strategic acquisitions, customer acquisition and retention. We have a strong, scalable platform and plan to accelerate our growth by forming strategic partnerships that provide access to new ideas and innovation.

Our goal is to remain competitive and punch above our weight.

### Substantial Growth Opportunities

The UK managed IT services industry is heavily fragmented, meaning there is a significant opportunity to supplement organic growth with inorganic. We have built a reputation for our ability to identify, acquire and turn around businesses that will help us realise our growth ambitions, and we continue to appraise targets we think would be a good strategic fit. The landscape remains ripe for consolidation, and we intend to lead the way.

### A Disciplined Focus

An important facet of our focus is the prioritisation of multi-year contracts and renewals over single-year deals. These types of agreements enhance the value of the business by increasing cash flow and improving revenue forecastability.

### Experienced & Proven Management

Our senior leadership and advisory team has a successful history of entrepreneurship, driven by customer-centricity, business development, and deep industry knowledge.

They have a clear vision for creating long-term value in the business, and with a significant personal investment in the company's success, they are strongly motivated to achieve their goals.

### Benefit from Shifts in IT Requirements

The landscape of IT and communications infrastructure is changing, and managed service providers that fail to keep up will fall behind. Modern organisations require solutions that align with their business objectives, in addition to their functional needs. The demand for multi-cloud solutions is growing, cybersecurity remains a top priority, and collaboration tools are essential for remote working. We identified these trends early on and are developing our proposition to cater to these evolving requirements.



# Get in touch

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