Grafenia plc

Replacement: Final Results

RNS Number : 9693T
Grafenia plc
27 July 2022

The following announcement replaces the announcement released on 27 July 2022 at 07.00 under RNS number 8386T. In the Consolidated statement of cash flows for the year ended 31 March 2022, the wording related to the composition of the cash and cash equivalents at 31 March 2022 has been amended to clarify that which related to the Group's continuing operation and that related to its discontinued operation. A note reference in the consolidated statement of financial position has also been corrected. The corrected announcement is set out below and all other details remain unchanged.

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the UK Market Abuse Regulation. With the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

Grafenia plc
("Grafenia", "the Group" or "the Company")

Preliminary Results for the year ended 31 March 2022

Grafenia plc (AIM: GRA) announces its full year audited results for the year ended 31 March 2022.

Financial highlights

Continuing operations	**Year ended 31 March 2022**	Year ended 31 March 2021
Turnover	**£8.92m**	£6.94m
EBITDA*	**£0.17m**	£0.24m
Operating Loss	**£(0.78)m**	£(0.95)m
Loss before Tax	**£(1.12)m**	£(1.22)m
Tax	**£0.56m**	£0.25m
Total Comprehensive Loss	**£(0.56)m**	£(0.97)m
EPS	**(0.49)p**	(0.85)p
Development expenditure	**£0.55m**	£0.68m
Cash and cash equivalent**	**£1.59m**	£2.74m
Net debt**	**£(5.25)m**	£(4.34)m

*Earnings before interest, tax, depreciation and amortisation
**Including discontinued operations

Operational highlights

- Launched WorksThing at the Sign & Digital exhibition
- Number of partners in America grows to 27
- Revenue growth across all channels
- Works Manchester sold to PFI Group post year end

For further information:

Grafenia plc

Gavin Cockerill (Acting CEO)	+ 44 7968 510 662
Jan Mohr (Chairman)	+49 175 734 2740
Iain Brown (Finance Director)	+44 161 848 5713
Allenby Capital Limited (Nominated Adviser and broker)	+44 203 328 5656
David Hart / Liz Kirchner	

Chairman's Statement

Shortly before publishing this report, Grafenia announced an important transaction. We decided to sell our manufacturing business as we believe we are not the best owner to develop that part of the business. Going forward, we will double down on the software & systems part of our business.

Sometimes you have to get smaller to grow bigger.

Over the course of the last few years - and during Covid in particular - we have learnt what Grafenia is really good at and, importantly, what we are not. In this annual report, you will hear from the leadership of Grafenia why we made the decisions we have and what lies ahead.

But first things first: here is our scorecard of the 2021/22 fiscal year:

Operational Performance
In the last fiscal year, our turnover increased by 27% to **£12.36m***(2021:£9.75m)*. Of this, £8.92m *(2021: £6.94m)* related to continuing operations and £3.44m *(2021: £2.81m)* related to discontinued operations. Gross profit increased by 20% to **£6.70m***(2021: £5.58m),* with £3.54m *(2021: £3.38m)* coming from continuing operations and £3.16m *(2021: £2.20m)* from discontinued operations. However, the overall gross profit margin decreased to **54.2%***(2021: 57.2%)* as physical product volumes returned, which provide a lower margin than our licence and subscription revenue streams.

The year showed an improvement from a loss to a profit in EBITDA, which is earnings before interest, tax, depreciation and amortisation, of **£0.33m***(2021: loss £0.16m).* £0.17m of this *(2021: profit £0.24m)* related to continuing operations and £0.16m *(2021: loss £0.40m)* related to discontinued operations. Our total comprehensive loss for the year reduced to **£1.84m** versus £2.09m last year. Of this, £0.56m (2021: £0.98m) was from continuing operations and £1.28m *(2021: £1.11m)* from discontinued operations.

We finished the fiscal year with cash of **£1.59m***(2021: £2.74m)* of which £0.13m relates to the discontinued operation and net debt of **£5.25m***(2021: net debt £4.34m)*, £2.56m of which relates to the discontinued operation. We invested **£0.03m** on capex *(2021: £0.18m)*, and capitalised **£0.55m** in development expenditure *(2021: £0.68m)*.

This year, we are reporting results from "continuing" and "discontinued" operations. In plain English, "continuing" are the figures for the fiscal year as if we had sold Works Manchester at the beginning of the comparative year. "Discontinued" is … well … everything else! We are happy to announce that the businesses that we are keeping - first and foremost Nettl Systems - are more profitable and simpler than the operations we sold.

In fact, that is part of the reason we decided to put the emphasis on Nettl Systems and to explore acquisitions of complementary software businesses. In many ways, software is the nervous system of many businesses. During Covid, we saw an incredible stability and resilience in our software and licence revenues. Nettl Systems (and any good software, really) is the last thing people turn off during times of crisis. And rightly so! Software makes businesses more efficient and allows people to spend their time on more creative and interesting tasks. Grafenia sells a special kind of software which is tied into an entire ecosystem of how to run and operate a design business: Nettl. Importantly, during Covid Nettl not only served as a smart solution to help design studio owners work more efficiently - it was a source of inspiration and stability for many small entrepreneurs to make it through trying times.

Gladly, it looks like we turned the corner in operating performance during the last fiscal year as you can see in the results we are announcing in this report. We sincerely hope that our renewed focus on our core competency - systems and software - will help our partners to scale and thrive as exhibitions open up and the world goes back to normal.

People at Grafenia
With our focus on systems and software, we inevitably had to part with a large number of team members. Happily, they are now part of a new organisation that is fully focussed on running many different production sites. This will bring opportunities for career growth to the people who have run our plants for many years. We wish PFI (PFI Group is the trading name of Rymack Sign Solutions Limited) as the new owners and everyone who leaves the Grafenia organisation our very best.

We also said goodbye to Peter Gunning who stepped down as CEO. I've very much enjoyed working with Peter for six years - he led Grafenia through a large transformation and the pandemic. Peter worked diligently to get us to where we are now and will stay closely involved with helping us improve our tech at Nettl Systems. In the name of all shareholders and the Board: Thank you, Peter!

With Peter leaving, Gavin is stepping up and will lead the *fission* of the organisation into two parts as Acting CEO. Over the course of the summer and early autumn, the Board will run a strategy exercise to explore the best operating model for our new focus on systems and software. The Board is excited to have Gavin in charge and we are keen to get to the drawing board very soon. In fact, Gavin has been instrumental in making our Nettl System available to many partners. Systems and software need to be sold, taught and curated - and Gavin knows very well how to do just that!

Outlook and Current Priorities
In the same place in last year's report, I explained our decision to divide our reporting structure into "everything production" and "everything software and licence". A year later, that split in reporting has led to a split of the business and a renewed focus on systems and software. Sometimes these things take time! However, we are now ready to double-down. While the coming weeks require some work on transitioning production to PFI, we will then focus on growing our software nucleus. To that end, Gavin will share a few initiatives in his report.

We will elaborate a bit more at the AGM and share a few more tangible aspects on what we are working on. In any case, the future of Grafenia will centre around what we are great at: making systems and software available for businesses to run better.

The AGM will take place on Wednesday 14 September 2022 at our Nettl of Birmingham Business, I hope to see you there!

Jan-Hendrik Mohr
Chairman

Chief Executive's Statement

Dear Shareholders,

Kind of a big deal
Our team has invested a great deal of energy and effort transitioning the business. To be what we think it should be. We continue to make progress. We've still work to do. But we've completed another big step in that process. That's the sale of our manufacturing business Works Manchester, detailed in our update of 19 May 2022.

That's kind of a big deal, so more on that later. It means we can double-down on our software licensing business. And move to the next part of the journey. With focus renewed. Objectives clear and in sight. To build, buy and licence.

As part of the sale, Peter Gunning has stepped down and I'm delighted the Board has appointed me Acting CEO. Peter will continue to be involved with the Nettl Systems software stack as a consultant. Moving forward, the Company and Peter intend to enter into an agreement whereby Peter will take on a master licence for WorksThing and Nettl in Spain. I expect he'll swap his flowery jackets for short-sleeved flowery shirts.

We'd like to sincerely thank our teams for their hard work and dedication throughout. For their efforts in bringing the business to this transitional point. We've made it through some tough times recently. It's not been easy and we recognise and appreciate the efforts of each and every partner and team member. Thank you.

This year was better, for sure. Slowly moving from lockdowns and restrictions to busy events and exhibitions has helped. Each of our business units improved performance compared to last year.

We said in our trading update on 6 April 2022 that we had faced cost rises across the board. Paper has increased by 30-50%, due to increased distribution costs, shortages and rising energy prices. We have increased our prices three times in 2022 to reflect this. Fuel and energy prices remain at high levels and are not helped by global events. We don't expect this to change anytime soon.

Build, buy and license
Our strategy remains the same. Build, buy and license. We build performance in our company-owned Nettl locations. We buy businesses to extend our scale, capability and resilience. And we license our know-how and systems to others. I'll go into more detail on each of the sections in turn.

The key difference? We no longer believe we need to own a production facility to provide an integrated supply chain via our platform. We can do so utilising our Works Maker partners. Works Manchester now being the largest. Seamlessly hooked into our platforms.

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

Our stores are in Manchester, Birmingham, Exeter, Liverpool and Dublin. They're important because it's where we refine new initiatives. Develop and deploy best practice. Then we roll that out across our partner network.

The pandemic and all the restrictions brought about uncertainty. Uncertainty dents business confidence. But as restrictions were lifted, events returned. Business opened up again. Slowly, but surely, sales in our company stores returned. Not to pre-pandemic levels. But they're getting there. Revenues from our stores were up 34% to **£2.46m***(2021: £1.83m)*. In the second half of 2020, we rolled three businesses into our Birmingham and Dublin company stores. If we exclude them this year, like-for-like sales would be up 20%.

In this revenue segment, we count all invoiced sales to end clients of our company stores, whether they be print, display, design, websites or search engine optimisation. Essentially, everything we ring through the till in our own stores.

Software Circle
We buy businesses to extend our scale, capability and resilience. Our acquisition strategy is a little different today. We're refocusing our search on software businesses. Take a look at www.grafenia.com/acquisition to see the full detail. Our Software Circle team actively search for businesses that either complement our core offering or are complementary to the skillsets we have as a business. Those skillsets being sales, marketing, design and software development and licensing. We have a number of ongoing discussions with owners of businesses that meet our criteria. Things are progressing. This will be a large part of our focus for the upcoming year.

You might think that this is a pivot. And you'd be right. Our previous aim was to roll-in signage businesses. You'll recall we acquired Image Group back in 2017. Sales were **£3.45m***(2021: £2.80m)*. Owning Image Group helped us integrate the supply of signage and large format solutions into our systems. We're hoping to expand those offerings through Works Manchester and new owner PFI Group's wider network.

We believe we can achieve our aim of an integrated supply chain and nationwide installation network for our partners without owning sign companies.

Nettl Systems
If I think back to my first days with this business. A long, long time ago. In what feels like a galaxy far, far away. Birmingham, to be precise. It was *all about print*. A lot has changed since then. Print is a huge part of our legacy. It's where everything started. Back then, we published prices in a buying guide, we faxed order forms, manually checked graphic files and sent them to production using a Jaz drive. Yes, Jaz and Fax were things.

Since then, the Nettl System has grown up. Developed over decades. Once our blue screened, MS-DOS child. Now the jewel in our crown. A complete cloud-based operating system for the graphics sector.

Our software platform, once geared *just* for print, now manages everything a diverse graphics studio needs to thrive. From print orders and web projects to signage surveys and installations, SEO and Social Media. Automating the little things that have to happen along the way.

Nettl studios can do more for their clients, in less time, with the same people. To rely less on *just* reselling print. We've added new modules too. Improving the CRM and pipeline capabilities. We think this could widen the target market for our subscriptions in the future.

Today we licence our software and brands to graphic professionals. Designers, printers, signmakers, marketing agencies and other graphic professionals use our marketing tools, workflow management system and integrated supply chain to deliver better service to their local clients.

Partners pay us a monthly subscription which gives them access to our systems, brand, training and support. Using the Nettl System, they're able to buy factory-direct print and display seamlessly integrated from multiple suppliers. We call them Works Makers. Partners resell to clients along with centralised digital marketing services like SEO, Social Media and Paid Search.

Our 'brand partners' use the Nettl or printing.com brand in conjunction with their own. They're our exclusive partner in their neighbourhood. We licence printing.com and Nettl directly in the UK and Ireland. We also licence Nettl in Belgium, France, the Netherlands and in the USA. In Australia and New Zealand, we master licence to our partner.

In the UK we have waiting lists for the larger city areas. But the provincial towns are where we've seen some churn. Partners who found it difficult to diversify from selling just print, have had a tough time. Although Covid restrictions ended, for those still reliant on small format print, recovery was slower than hoped. It's always sad to lose partners, but compared to the sector at large, our network has proved resilient. Our brand, marketing and clever systems kept some going when otherwise, they may not have. We have continued to add new Nettl partners in the UK and US.

Our Nettl partner network now stands at **210** locations around the world *(2021: 232),* 159 active Nettl partners in the UK and Ireland, 18 in Benelux, 27 in the USA, 4 in New Zealand and 2 in Australia. In France we saw an influx of new partners during the pandemic and our partner count last year stood at 12. But France has been hit the hardest and those businesses never got going.

We also currently have **38** printing.com locations *(2021: 46)*. We are still seeing printing.com partners upgrade to Nettl in the UK and Ireland. We anticipate that will continue as partners diversify their businesses from a reliance on print alone.

Despite a reduction in brand partner count, Subscription and Licence Fees overall improved slightly at **£2.14m***(2021: £2.08m)*. An increase in search engine optimisation subscriptions and website deployments helped drive this. In this segment, we count initial licence fees, monthly subscriptions, website deployment royalties, the wholesale price of hosting, domain names, digital stock photography and search engine optimisation sold via our brand partners.

As well as paying for licence fees and subscription-based services, Nettl and printing.com partners buy printing, exhibition kit, displays and signs and other branded merchandise from our integrated supply chain. They pay a wholesale price and resell to end clients. Last year product sales were hit hard. As businesses opened, events returned. Business confidence bounced around, but certainly improved on last year. Similar to our company-owned stores, this meant sales of products to Brand Partners increased to **£2.44m***(2021: £1.92m)*, driven largely by large format graphics and signage.

WorksThing
Leveraging what we learned from owning our own signage business, we developed and implemented a digital transformation programme to improve the sign and install industry. The first iteration of our platform was for print. The second, web and digital services. This new layer enhances the whole process of quoting and managing sign and display projects.

We launched "WorksThing" at the Sign & Digital exhibition in March 2022. Optimised for the signage sector, WorksThing.com is a complete workflow tool for managing signage installations, from start to finish. It's an extension to the Nettl system - another Software-as-a-Service. Sign businesses pay a monthly subscription, from £49 per user per month. Their installers can build online surveys and collaborate online. Connecting their calendars to provide online booking, like reserving a table at a restaurant.

Each install is mapped on a live timeline, so everyone can keep track of progress. A modern chat messaging system connects clients with studios, production and install crews. It's early days, but multiple businesses have signed up for a free trial and we're pleased with the reaction we received at the event.

We expect to see some existing partners upgrade and that some WorksThing clients will become Nettl partners. To get more from every client relationship with the Nettl toolkit.

Marqetspace.com and online channels

We sell print and signs to professional buyers through Marqetspace.com and a few other online channels. This space remains super-competitive.

It may then seem weird that we retain our Marqetspace channel despite the sale of Works Manchester. But it is important to us for a number of reasons. It's often where our relationships start. We get to know printers, graphic designers and sign companies with a simple trading relationship. Then we build trust. Then we figure out if any of our software tools or systems can help them achieve their own objectives. And so Marqetspace is a fertile ground for cultivating Nettl partners.

It also gives us insight into where the gaps in our product range are. We use that to find new Works Makers that can provide that supply.

The pandemic was tough for Marqetspace because it typically had the highest percentage of litho print to resellers. However, we saw a recovery last year. Sales were **£1.88m***(2021: £1.12m)*.

Nettl of America
In truth, our American dream remains just that. We've been hindered by the pandemic and the US travel ban didn't help. But we've used that time to evaluate and refine what we've been doing and how we've been doing it. Our new process has generated leads and brought new partners into the family.
We've had to adapt how we acquire, launch and support our American friends. We're not deterred. Now that it's possible again, we'll be at exhibitions and events. Face-to-face. Meeting with potential partners. We expect that to help increase conversion.

We now have 27 Nettl locations in America. There are franchisees and partners in the states of Florida, Georgia, Ohio, New Jersey, Pennsylvania and Illinois.

Works Manchester becomes a Works Maker
The Board took the decision to sell Works Manchester, so the two businesses can focus on their strengths. Nettl Systems will be focused on growing our software and licensing.

Works Manchester has plenty of capacity. It will benefit from ingesting more external volume. New owner PFI Group is a natural fit and can use the spare capacity. It also gives Works Manchester other opportunities to grow and prosper.

Based less than a mile from the Manchester hub, PFI have been Nettl partners for several years and operate a dozen factories around the country.

Providing products for partners to resell through our system remains an important part of the offering. Works Manchester becomes our largest Works Maker. Maintaining an integrated supply chain through our platform, for our partners. With increased capabilities. They will continue to use our software platform with a five year licence agreement. It controls the movement of orders through each production step and seamlessly connects our partners.

Which means partners continue to buy print, display and signage products from Nettl Systems. With all the tracking, visibility and service guarantees they've come to expect. We charge a small fee to process each order through our platform.

The sale of Works Manchester is an important pivot for the Group. It will see Grafenia transition to a software licensing business. Focused on developing our platforms, growing our partner network and company owned channels. And adding further software businesses to the Group by way of M&A.

Outlook
Our new financial year started in April. Trading has continued to improve, compared to last year. We're currently trading slightly ahead of our internal forecasts. Given the sale of Works Manchester Ltd, we will benefit from lower fixed overheads, depreciation charges and costs of borrowing. Modest increases in revenue will improve profitability. And that gives us confidence of reaching our mid-term objective of 10-15% EBITDA on a monthly run-rate.

For the first time in a while, I hope to see you in person for the presentation after the AGM.

Gavin Cockerill
Acting Chief Executive

Financial Review

Revenue
Group revenue for the year, excluding discontinued operations, was **£8.91m**, *(2021: £6.94m)*, an increase of 26% year-on-year. Whilst a clear improvement, COVID-19 uncertainty and lockdowns continued to impact revenue. Licence revenues, as with the prior year, remained consistent. Sales of products increased as volumes improved and price rises in response to rising costs were enacted in the second half of the year, but were still lower than usual. Exhibitions and events were cancelled for a second year and many customers were still unable to open or otherwise forced to operate at reduced capacity for significant periods during the year.

In terms of product sales, our Company Stores saw an increase in revenue to **£2.46m***(2021: £1.83m)*, sales of print and other products through our Brand Partner Network increased to **£2.44m***(2021: £1.92m)*, Online and Trade sales increased to **£1.88m***(2021: £1.12m)*. Revenues from Works Signs Businesses, our now discontinued operation, increased to **£3.45m***(2021: £2.80m)*. The reason for the increases is consistent over each of these channels - more customers open for more days during the year. Licence and Subscription Fee revenue has increased year-on-year to **£2.14m***(2021: £2.08m)* despite a slight reduction in our partner count. At **95%** by revenue *(2021: 94%)*, the majority of our business remains in the UK & Ireland.

Gross profit

Gross Profit, defined as revenue less direct materials (including the cost of distribution when made direct to customers) increased to **£6.70m***(2021: £5.58m*). Of this, £3.54m related to continuing operations *(2021: 3.38m)* and £3.16m related to discontinued operations *(2021: £2.20m)*. As part of the sale of Works Manchester, we entered into a 5 year supply agreement to provide products to our Company stores and Partners. This change reduces the gross profit percentage of the Group, but at the same time reduces staff costs and overheads. To accurately reflect the performance of continuing operations, the financials have been presented to show the results had the disposal and new supply agreement been in effect for both the current and the comparative financial years.

The gross margin percentage of **54.2%***(2021: 57.2%)* reflects a shift in the proportion of our revenue away from the higher margin Licence and Subscription income as product volumes have returned. Margins continue to be under pressure in traditional print and signage, with the pandemic and other global supply chain issues causing scarcity of materials and increased costs. The entire industry has been affected, leaving us with no viable option but to increase prices across our range of physical products. During the year we enacted three price increases across our range of printed products, with prices rising on average by 4% each time.

Other operating costs

With our team members returning to work as revenues have improved, the amount claimed through the Coronavirus Job Retention Scheme fell to **£0.14m** (2021: *£0.79m),* causing our overall staff costs to increase by 15% to **£4.24m***(2021: £3.70m).* The average number of persons employed fell to **146***(2021: 159)*, reflecting the full year impact of the restructuring programme undertaken in the prior year.

Other operating charges have increased to **£2.09m***(2021: £1.88m)* as reductions in the cost base achieved during the prior year have been mostly preserved.

Our bad debt charge reduced to **£0.04m** in the year *(2021: £0.20m)* reflecting the high provisions required during the first year of the covid-19 pandemic and the continued improvements in credit control since then. We continue to work with our customers and Partners however our provision for debt is still significant and we have to accept that some of those debts may never be paid.

Profitability

As a combination of the factors discussed above, our pre-tax loss reduced to **£1.71m***(2021: £2.33m)* leading to a reduced loss per share of **1.60p***(2021: 1.83p)*. Of this, a loss of **£1.28m***(2021: £1.11m)* is attributed to the now sold production operation of Works Manchester. Our earnings before interest, tax, depreciation and amortisation (EBITDA) improved to a profit of **£0.33m***(2021: loss of £0.16m)*. Excluding Works Manchester, EBITDA was **£0.17m***(2021: 0.24m)*. The parent company result for the year was a loss of **£0.41m***(2021: loss £0.33m)*.

Operating Cash Flow

This has led to the Group generating **£0.13m** of cash through operating activities *(2021: generated £0.22m)*, reflecting the EBITDA in the respective years. Excluding Works Manchester, the Group generated **£0.27m***(2021: 0.59m)*.

Investment activity

The current year has seen reduced investment in plant and equipment of **£0.03m***(2021: £0.18m)*, following the decision to divest our production operations. We continued our investment in the Group's software platforms, totalling **£0.55m***(2021: £0.68m)*, with continued enhancements and new features to the Groups SaaS platforms.

Financing activity

Compared to previous years, it has been a quiet year for financing activity, with no additional facilities taken out, and no further drawdowns on the £50m bond facility that was put in place in the 2020.

Repayments of lease liabilities totalled **£0.82m***(2021: £0.67m)*, of which, £0.63m related to Works Manchester *(2021: £0.44m)*.

We finished the fiscal year with cash of **£1.59m***(2021: £2.74m)* of which £0.13m relates to the discontinued operation and net debt of **£5.25m***(2021: net debt £4.34m)*, £2.56m of which relates to the discontinued operation.

KPIs

Management monitors a number of KPIs, which underpin the performance of the business. The financial KPIs are Revenue, EBITDA and overall profit of loss for the year. These metrics can be found in the Summary section at the front of this financial report, and also within the Consolidated statement of comprehensive income. Another key financial metric is the average product revenue per partner, which has increased as the severity of the pandemic has eased.

There are also a number of non-financial KPIs which management monitors, that ultimately drive the financial performance. The number of Nettl Network Partners, the main driver of our Licence and subscription fee revenue, has reduced, as discussed by Gavin earlier within the Chief Executives Statement. Website deployments and SEO subscriptions, the other drivers of Licence and subscription revenue, have levelled off, following a surge in the previous financial year as our customers looked for alternative ways to promote their businesses during the height of the pandemic.

Outlook

The major development for the group is the sale of Works Manchester which completed on 31 May 2022, for cash consideration of £3,165,000. Of this consideration, £100,000 is payable over the first 3 months and then £766,250 on the first four anniversaries of the sale. In recent years this part of our operation has not been profitable. The total loss from the discontinued operation was **£1.28m***(2021: £1.11m)* and the cash outflow attributable was **£0.47m***(£0.79m)*.

Looking forward, we expect to see revenues from the ongoing operations continue to recover and hope to experience no further coronavirus restrictions. Events returned in the Spring as expected, bringing an upturn in revenue, particularly within our range of ink-on-fabric display products. Group revenues in the first quarter of the current year were up 24% on the previous financial year.

With the changed business model, the gross margin of the Nettl operation will look very different. Our margin on product sales will drop significantly, but so will our underlying cost base. Finance repayments have been significantly reduced and we will receive payments over the next four years in relation to the sale of Works Manchester. Based on a forecast including a moderate increase in revenue, we expect profitability to improve. We believe the financial future of the business is secure and we have the resources to execute our expansion plans. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Principal Risks and Uncertainties

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

Risk	Potential Impact	Mitigation
Global or regional pandemic	The COVID-19 virus, and public health mitigations may lead to the closure of end customer and company owned premises, impacting the ability to trade, reducing demand and disrupting the supply of goods.	Our product range has been diversified to rely less on physical promotional items. Production of physical products has been outsourced, lowering the risk should product volumes fall. Home working arrangements are in place enabling team members to work remotely if required.

Economic and political factors beyond the Group's direct control	A downturn in the macroeconomy may reduce consumer demand generally. Costs may be increased by changes to government policy, including tax changes or other legislation. Supply chains may be subject to disruption, or inflationary pressure.	To mitigate supply chain disruption across borders the majority of product supply is now sourced from the jurisdictions the customer belongs to. Our platform has the capability to source product supply from multiple suppliers, across multiple regions should it be required.
Competitive environment	The markets in which the Group operates are extremely competitive posing a threat to profitability.	We work closely with suppliers to monitor input costs and competitor pricing, ensuring we remain competitive.
Technological change	Advances in software may impact on operational effectiveness and earnings potential.	We are constantly improving our platform and adding new features to ensure we remain at the forefront of the technological advancement.
Technological failure	The Group and its clients depend on the W3P SaaS platform to operate their businesses.	All reasonable operational contingency is embedded for resilience in the event of a catastrophe.
Key management	The loss of key personnel could impact the Group's ability to implement strategy and the intended pace of growth.	The Remuneration Committee seeks to ensure rewards are commensurate with performance and aid retention.

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

Iain Brown
Group Finance Director

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 MARCH 2022	*Note*	**2022 £000 Continuing operation**	**2022 £000 Discontinued operation**	**2022 £000 Total**	2021 £000 Continuing operation	2021 £000 Discontinued operation	2021 £000 Total
Revenue	2	**8,916**	**3,445**	**12,361**	6,944	2,804	9,748
Raw materials and consumables used		**(5,377)**	**(286)**	**(5,663)**	(3,568)	(605)	(4,173)
Gross profit		**3,539**	**3,159**	**6,698**	3,376	2,199	5,575
Staff costs		**(2,019)**	**(2,221)**	**(4,240)**	(1,808)	(1,892)	(3,700)
Doubtful debt expense		**(32)**	**(11)**	**(43)**	(155)	(5)	(160)
Other operating charges		**(1,322)**	**(763)**	**(2,085)**	(1,178)	(697)	(1,875)
Earnings before interest, tax, depreciation and amortisation		**166**	**164**	**330**	235	(395)	(160)
Depreciation and amortisation	6 & 7	**(944)**	**(569)**	**(1,513)**	(1,184)	(521)	(1,705)
Operating loss		**(778)**	**(405)**	**(1,183)**	(949)	(916)	(1,865)
Financial income		**6**	**-**	**6**	16	-	16
Financial expenses		**(346)**	**(186)**	**(532)**	(290)	(187)	(477)
Net financing expense		**(340)**	**(186)**	**(526)**	(274)	(187)	(461)
Loss before tax		**(1,118)**	**(591)**	**(1,709)**	(1,223)	(1,103)	(2,326)
Tax income	3	**559**	**-**	**559**	249	(8)	241
Loss for the year		**(559)**	**(591)**	**(1,150)**	(974)	(1,111)	(2,085)
Re-measurement to fair value on discontinued operations	13	**-**	**(686)**	**(686)**	-	-	-
Loss and total comprehensive income for the year		**(559)**	**(1,277)**	**(1,836)**	(974)	(1,111)	(2,085)

Loss per share attributable to the ordinary equity shareholders of Grafenia plc Basic and diluted, pence per share	4	**(0.49)p**	**(1.12)p**	**(1.60)p**	(0.85)p	(0.98)p	(1.83)p

Consolidated statement of financial position

AT 31 MARCH 2022	Note	**Group 2022 £000**	Group 2021 £000
Non-current assets			
Property, plant and equipment	6	**1,077**	5,065
Intangible assets	7	**1,391**	3,510
Total non-current assets		**2,468**	8,575
Current assets			
Inventories		**29**	444
Trade and other receivables	8	**1,281**	1,545
Prepayments		**283**	278
Cash and cash equivalents		**1,462**	2,740
Asset held for sale/disposal group	13	**6,234**	-
Total current assets		**9,289**	5,007
Total assets		**11,757**	13,582
Current liabilities			
Other interest-bearing loans and borrowings	10	**308**	931
Trade and other payables	9	**1,512**	1,799
Deferred income	9	**77**	60
Liabilities relating to disposal group	13	**3,530**	-
Total current liabilities		**5,427**	2,790
Non-current liabilities			
Other interest-bearing loans and borrowings	10	**3,842**	6,149
Deferred tax liabilities	5	**-**	389
Total non-current liabilities		**3,842**	6,538
Total liabilities		**9,269**	9,328
Net assets		**2,488**	4,254
Equity attributable to equity holders of the parent			
Share capital	12	**1,145**	1,145
Merger reserve		**838**	838
Share premium		**7,866**	7,866
Share based payment reserve		**88**	84
Translation reserve		**66**	-
Retained earnings		**(7,515)**	(5,679)
Total equity		**2,488**	4,254

Consolidated statement of changes in shareholders' equity

YEAR ENDED 31 MARCH 2022	Share Capital £000	Merger reserve £000	Share Premium £000	Share Based Payment Reserve £000	Translation Reserve £000	Retained Earnings £000	Total £000
Balance at 31 March 2020	1,135	838	7,801	74	-	(3,594)	6,254
Loss and total comprehensive income for the year from continuing operation	-	-	-	-	-	(974)	(974)

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Loss and total comprehensive income for the year from discontinued operation	-	-	-	-	-	(1,111)	(1,111)
Shares issued in the period	10	-	65	-	-	-	75
Share option reserve	-	-	-	10	-	-	10
Total movement in equity	10	-	65	10	-	(2,085)	(2,000)
Balance at 31 March 2021	1,145	838	7,866	84	-	(5,679)	4,254
Loss and total comprehensive income for the year from continuing operation	-	-	-	-	-	(559)	(559)
Loss and total comprehensive income for the year from discontinued operation	-	-	-	-	-	(1,277)	(1,277)
Retranslation of net assets of overseas subsidiaries	-	-	-	-	66	-	66
Share option reserve	-	-	-	4	-	-	4
Total movement in equity	-	-	-	4	66	(1,836)	(1,766)
Balance at 31 March 2022	1,145	838	7,866	88	66	(7,515)	2,488

Consolidated statement of cash flows

FOR YEAR ENDED 31 MARCH 2022	Note	**Group 2022 £000**	Group 2021 £000
Cash flows from operating activities			
Loss for the year		**(559)**	(974)
Adjustments for:			
Depreciation, amortisation and impairment		**944**	1,184
Loss / (profit) on sale of plant and equipment		**-**	5
Release of deferred profit on sale of plant and equipment		**(9)**	(14)
Share based payments		**4**	10
Net finance expense		**340**	274
Bad debt expense		**(54)**	174
Foreign exchange loss		**66**	-
Tax income		**(559)**	(249)
Operating cash flow before changes in working capital and provisions		**173**	410
Change in trade and other receivables		**(86)**	222
Change in inventories		**2**	-
Change in trade and other payables		**184**	(229)
Cash generated from / (utilised by) operations		**273**	403
Interest received		**-**	7
R&D tax income received		**-**	172
Net cash inflow / (outflow) from operating activities from continuing operation		**273**	582
Net cash inflow / (outflow) from operating activities from discontinued operation		**(139)**	(370)
Net cash inflow / (outflow) from operating activities		**134**	212
Cash flows from investing activities			
Proceeds from sale of plant and equipment		**-**	10
Acquisition of plant and equipment		**(27)**	(90)
Capitalised development expenditure	7	**(525)**	(370)
Acquisition of other intangible assets	7	**(20)**	(259)
Acquisition of Subsidiary net of cash (group)		**-**	(84)
Net cash used in investing activities from continuing operation		**(572)**	(793)
Net cash used in investing activities from discontinued operation		**(3)**	(49)
Net cash used in investing activities		**(575)**	(842)
Cash flows from financing activities			
Proceeds from share issue		**-**	75
Proceeds / (repayment) of funding from invoice finance		**-**	10
Proceeds from loans		**-**	3,010
Repayment of loans	10	**(196)**	(81)
Capital payment of lease liabilities		**(115)**	(164)
Interest payment of lease liabilities		**(67)**	(72)
Payment of deferred consideration		**-**	(148)
Net cash generated from financing activities from continuing operation		**(378)**	2,630
Net cash generated from financing activities from discontinued operation		**(330)**	(364)
Net cash generated from financing activities		**(708)**	2,266
Net increase / (decrease) in cash and cash equivalents from continuing operations		**(677)**	2,419
Net increase / (decrease) in cash and cash equivalent from discontinued operations		**(472)**	(783)
Cash and cash equivalents at start of year		**2,740**	1,104
Cash and cash equivalents at 31 March 2022		**1,591**	2,740
Comprises of:			
Cash and cash equivalent from continuing operation		**1,462**	2,714
Cash and cash equivalent from discontinued operation		**129**	26

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Notes to the financial statements

1 BASIS OF PREPARATION

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

This financial information does not include all information required for full annual financial statements and therefore does not constitute statutory accounts within the meaning of section 435(1) and (2) of the Companies Act 2006 or contain sufficient information to comply with the disclosure requirements of International Financial Reporting Standards. These should be read in conjunction with the Financial Statements of the Group as at and for the year ended 31 March 2021.

The comparative figures for the year ended 31 March 2021 are also not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The preliminary financial information was approved by the Board of Directors on 26 July 2022.

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

Based on the above the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and is well placed to manage its business risks successfully despite the continued uncertain economic outlook caused by Covid-19. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

BUSINESS COMBINATIONS
On 19th May 2022, the group announced the sale of its manufacturing operation based in Manchester. The manufacturing operation, referred to as 'Works Manchester' consists of the legal entity, Works Manchester Limited, along with the Manchester based production assets, related leases and staff contracts of Grafenia Operations Limited. Accordingly, these assets and liabilities have been designated as held for sale and separately disclosed in the statement of financial position and the financial impact of the discontinued operation is separately disclosed in the Statement of comprehensive income.

Following the disposal, Grafenia entered into a 5 year supply agreement with Works Manchester Limited to provide products to our Company stores and Partners. This change reduces the gross profit percentage of the group, but at the same time reduces staff costs and overheads. To accurately reflect the performance of continuing operations, the Statement of comprehensive income has been presented to show the results had the disposal and new supply agreement been in effect for both the current and the comparative financial years.

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

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

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

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

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

ESTIMATION OF THE EXPECTED CREDIT LOSSES ON TRADE AND INTERCOMPANY RECEIVABLES
In assessing the expected credit losses, in respect of the trade and intercompany receivables under IFRS 9, the Group considers the past performance of the receivable book along with future factors that may affect the credit worthiness of the receivables. Estimations have therefore been made within these assumptions which could affect the carrying value of the trade and intercompany receivables.

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

2 REVENUE AND SEGMENTAL INFORMATION

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

ANALYSIS BY LOCATION OF SALES	UK & Ireland £000	Europe £000	Other £000	Total £000
Year ended 31 March 2022 Segment revenues	**11,723**	**289**	**349**	**12,361**
Year ended 31 March 2021 Segment revenues	9,117	242	389	9,748

Revenue generated outside the UK is attributable to partners in Australia, Belgium, France, New Zealand, The Netherlands and the USA.

No single customer provided the Group with over 9% of its revenue.

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

	Continuing Operations					**Discontinued Operation**	**Total**
	Licence Fees	**Company Stores**	**Brand Partner Print**	**Online & Trade**		**Works Sign Businesses**	
	£000	**£000**	**£000**	**£000**	**£'000**	**£'000**	**£000**
Year ended 31 March 2022	**2,135**	**2,462**	**2,439**	**1,880**	**8,916**	**3,445**	**12,361**
Year ended 31 March 2021	2,077	1,832	1,916	1,119	6,944	2,804	9,748

Of the Group's non-current assets (excluding deferred tax) of £2,486,000 *(2021: £8,575,000)*, £2,475,000 *(2021: £8,545,000)* are located in the UK. Non-current assets located outside the UK are in France £nil *(2021: £5,000)* and Ireland £11,000 *(2021: £25,000)*.

3 TAXATION

Recognised in the income statement	**2022 £000**	2021 £000
Current tax expense		
Current year	**(166)**	(166)
Adjustments for prior years	**(12)**	(1)
	(178)	(167)
Deferred tax expense		
Origination and reversal of temporary differences	**(63)**	(74)
Previously unrecognised deferred tax asset currently recognised	**(318)**	-
Total tax in income statement	**(559)**	(241)

RECONCILIATION OF EFFECTIVE TAX RATE
Factors affecting the tax charge for the current period:

The current tax charge for the period is lower *(2021: lower)* than the standard rate of corporation tax in the UK of 19% *(2021: 19%)*.

The differences are explained below:

	2022 £000	2021 £000
Loss before tax	**(1,991)**	(2,326)
Tax using the UK corporation tax rate of 19% *(2021:19%)*	**(378)**	(442)
Effects of:		
Other tax adjustments, reliefs and transfers	**(530)**	(99)
Adjustments in respect of prior periods - current tax	**(11)**	(1)
Adjustments in respect of prior periods - deferred tax	**(1)**	-
Deferred tax not recognised	**584**	248
Research and Development losses surrendered	**219**	223
Research and Development super deduction	**(124)**	(170)
Previously unrecognised deferred tax asset currently recognised (see note 5)	**(318)**	-
Total tax credit	**(559)**	(241)

The Group tax debtor amounts to £167,000 *(2021 Debtor: £163,000)*. The deferred tax liabilities as at 31 March 2022 have been calculated using the tax rate of 25% which was substantively enacted at the balance sheet date.

In the budget on 3 March 2021, the UK Government announced an increase in the main UK corporation tax rate from 19% to 25% with effect from 1 April 2023. The change in rate was substantively enacted on 24 May 2021.

4 EARNINGS PER SHARE

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

	2022	2021
	£000	£000
Loss after taxation for the financial year from continuing operations	**(559)**	(974)
Loss after taxation for the financial year from discontinued operations	**(1,277)**	(1,111)
Total loss after taxation for the financial year	**(1,836)**	(2,085)

	Weighted average number of Shares	Weighted average number of Shares
For basic earnings per ordinary share	**114,490,828**	113,831,139
For diluted earnings per ordinary share	**114,490,828**	113,831,139

Basic and diluted loss per share	**(1.60)p**	(1.83)p
Basic and diluted loss per share from continuing operation	**(0.49)p**	(0.85)p
Basic and diluted loss per share from discontinued operation	**(1.12)p**	(0.98)p

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

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

5 DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities	**Assets 2022 £000**	Assets 2021 £000	**Liabilities 2022 £000**	Liabilities 2021 £000	**Total 2022 £000**	Total 2021 £000
Intangible assets	**-**	-	**(318)**	(389)	(318)	(389)
Trading losses	**318**	-	**-**	-	318	-
Tax asset/(liabilities)	**318**	-	**(318)**	(389)	**-**	(389)

Movement in deferred tax during the year.	**1 April 2021 £000**	**Recognised on acquisition of subsidiary £000**	**Recognised in income £000**	**Removal of discontinued operation £000**	**Deferred tax asset utilisation £000**	**31 March 2022 £000**
Intangible assets	**(389)**	**-**	**63**	**8**	**-**	**(318)**
Trading losses	**-**	**-**	**-**	**-**	**318**	**318**
	(389)	**-**	**63**	**8**	**318**	**-**

Movement in deferred tax during the year.	1 April 2020 £000	Recognised on acquisition of subsidiary £000	Recognised in income £000	Removal of discontinued operation £000	Deferred tax asset utilisation £000	31 March 2021 £000
Intangible assets	(448)	(15)	74	-	-	(389)
	(448)	(15)	74	-	-	(389)

The Group has unrecognised deferred tax assets in respect of carried forward losses of £1,526,000 (*2021: £1,255,000*).

6 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £000	Plant and equipment £000	Motor Vehicles £000	Fixtures and Fittings £000	Total £000
Cost					
Balance at 31 March 2020	2,575	5,591	139	1,583	9,888
Right-of-use assets recognised on IFRS 16 adoption	-	168	8	4	180
Additions	-	1	-	-	1
Disposals	-	(523)	(28)	-	(551)
Balance at 31 March 2021	2,575	5,237	119	1,587	9,518

Additions	-	31	-	-	31
Transferred to assets held within disposal group (note 13)	(735)	(4,913)	(28)	(763)	(6,439)
Balance at 31 March 2022	**1,840**	**355**	**91**	**824**	**3,110**
Depreciation and impairment					
Balance at 31 March 2020	836	2,494	101	974	4,405
Depreciation charge for the year	260	140	27	157	584
Disposals	-	(508)	(28)	-	(536)
Balance at 31 March 2021	1,096	2,126	100	1,131	4,453
Depreciation charge for the year	213	236	10	118	577
Transferred to assets held within disposal group (note 13)	(382)	(2,057)	(25)	(533)	(2,997)
Balance at 31 March 2022	**927**	**305**	**85**	**716**	**2,033**
Net book value					
At 31 March 2020	1,739	3,097	38	609	5,483
At 31 March 2021	1,479	3,111	19	456	5,065
At 31 March 2022	**913**	**50**	**6**	**108**	**1,077**

Right-of-use assets are included within the same asset categories as they would have been if they were owned. As of 31 March 2022 the Group has right-of-use assets with a carrying value of £3,453,000 *(2021: £3,806,000)*. Right-of-use of assets from discontinued operation is £2,540,000 *(2021: £2,762,000)*. A table showing the net book value of right-of-use assets within property, plant and equipment at 31 March 2022 and 31 March 2021, split by category, is disclosed in note 11.

7 INTANGIBLE ASSETS

	Domains & brand £000	Software £000	Development costs £000	Customer Lists £000	Goodwill £000	Other £000	Total £000
Cost							
Balance at 31 March 2020	912	4,265	4,059	3,165	141	162	12,704
Additions - internally developed	-	-	419	-	-	-	419
Additions - purchased	-	259	-	-	-	-	259
Acquisition of subsidiary	-	-	-	80	15	-	95
Balance at 31 March 2021	912	4,524	4,478	3,245	156	162	13,477
Additions - internally developed	-	-	525	-	-	-	525
Additions - purchased	-	20	-	-	-	-	20
Transferred to assets held within disposal group (note 13)	(549)	-	-	(2,570)	(18)	-	(3,137)
Balance at 31 March 2022	**363**	**4,544**	**5,003**	**675**	**138**	**162**	**10,885**
Amortisation and impairment							
Balance at 31 March 2020	412	3,805	3,298	1,205	12	114	8,846
Amortisation for the year	30	297	389	399	-	6	1,121
Balance at 31 March 2021	442	4,102	3,687	1,604	12	120	9,967
Amortisation for the year	20	232	387	286	-	11	936
Transferred to assets held within disposal group (note 13)	(115)	-	-	(1,294)	-	-	(1,409)
Balance at 31 March 2022	**347**	**4,334**	**4,074**	**596**	**12**	**131**	**9,494**
Net book value							
At 31 March 2020	500	460	761	1,960	129	48	3,858
At 31 March 2021	470	422	791	1,641	144	42	3,510
At 31 March 2022	**16**	**210**	**929**	**79**	**126**	**31**	**1,391**

IMPAIRMENT TESTING

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

The Group prepares cash flow forecasts derived from budgets and five-year business plans. The sales growth relates to all key revenue streams of the business and have been determined based on the experience to date of operating these sales channels, with 5% per annum for Licence fees, 2% for services and 1% for product sales.

For the purposes of impairment testing inflationary growth of 0.5% is assumed beyond this period. A pre-tax discount factor of 6.8% *(2021: 7.4%)* was applied.

Following the impairment review, the intangible assets are not considered to be impaired.

Increasing the pre-tax discount factor to 10.0% would not result in an impairment charge against intangible assets.

Amortisation and impairment charge
The amortisation charge of £936,000 *(2021: £1,121,000)* is recognised in profit or loss within depreciation and amortisation expenses. £225,000

(2021: £338,000) from discontinued operation, £711,000 *(2021: £783,000)* from continuing operation. An impairment charge of nil *(2021: £nil)* was recognised during the year.

8 TRADE AND OTHER RECEIVABLES

At 31 March 2022 trade receivables are shown net of an impairment allowance of £1,089,000 *(2021: £1,090,000)*.

Trade and other receivables denominated in currencies other than sterling comprise £114,000 *(2021: £136,000)* of trade receivables.

	2022 £000	2021 £000
Trade receivables	**3,290**	2,408
Less provision for trade receivables	**(1,089)**	(1,090)
Trade receivables net	**2,201**	1,318
Total financial assets other than cash and cash equivalents classified at amortised cost	**2,201**	1,318
Corporation tax	**167**	163
Other receivables	**70**	64
Total Other receivables	**237**	227
Total trade and other receivables	**2,438**	1,545
Total relating to discontinued operation	**1,157**	545
Total relating to continuing operation	**1,281**	1,000

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

	Under 6 months £000	Over 6 months £000	Total £000
Gross carrying amount	1,615	1,675	3,290
Loss provision	(83)	(1,006)	(1,089)
Net carrying amount	1,532	669	2,201

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

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

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

Impairment

	As at 31 March 2022 £000	As at 31 March 2021 £000
Balance at 1 April	**1,090**	1,000
Receivable written off during the year as uncollectible	**(44)**	(70)
Increase in impairment allowance	**43**	160
Balance at 31 March	**1,089**	1,090

Of the total impairment provision £36,000 *(2021: £79,000)* relates to Partners that have ceased trading.

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

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

Of the net trade receivables £512,000 *(2021: £209,000)* was pledged as security for the invoice discounting facility. The Group is committed to underwrite any of the debts transferred and therefore continues to recognise the debts sold within trade receivables until the debtors repay or default. Since the trade receivables continue to be recognised, the business model of the Group is not affected. The proceeds from transferring the debts are included in other financial liabilities until the debts are collected or the Group makes good any losses incurred by the service provider.

9 TRADE AND OTHER PAYABLES

Current Liabilities

	2022 £000 Total	2021 £000 Total
Trade payables	**1,445**	689
Accruals	**373**	358

Other liabilities	**529**	752
Total financial liabilities, excluding borrowings classified as financial liabilities measured at amortised cost	**2,347**	1,799
Total relating to discontinued operation	**835**	448
Total relating to continuing operation	**1,512**	1,351
Deferred income	**77**	60
Total relating to discontinued operation	**-**	-
Total relating to continuing operation	**77**	60
Total trade and other payables	**2,424**	1,859

Trade payables denominated in currencies other than Sterling comprise £72,000 *(2021: £43,000)* denominated in Euro.

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

10 BORROWINGS

Current Liabilities	**Group 2022 Total £000**	Group 2021 Total £000
Invoice Financing	**512**	209
Lease liabilities	**683**	602
Loans	**172**	120
	1,367	931
Total relating to discontinued operation	**1,059**	664
Total relating to continuing operation	**308**	267
Non-Current Liabilities		
Lease liabilities	**2,517**	3,185
Loans	**683**	854
Bearer Bonds	**2,270**	2,110
	5,470	6,149
Total relating to discontinued operation	**1,628**	(2,650)
Total relating to continuing operation	**3,842**	(3,499)

The invoice discounting arrangement is secured upon the trade debtors to which the arrangement relates see note 8.

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

In August 2020 an additional term loan for £1,000,000, repayable over six years, was secured through the Coronavirus Business Interruption Loan Scheme at an effective annual interest rate of 8.6%. At 31 March 2022 the liability was £855,000 *(2021: £974,000)*.

11 LEASES

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

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

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

AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

RIGHT OF USE ASSETS	Land and buildings £000	Plant and equipment £000	Motor Vehicles £000	Total £000
Balance at 1 April 2020	1,739	2,348	29	4,116
Additions to right of use assets	-	95	-	95

Depreciation	(260)	(122)	(23)	(405)
Balance at 31 March 2021	1,479	2,321	6	3,806
Depreciation	(213)	(134)	(6)	(353)
Transferred to assets relating to disposal group	(353)	(2,187)	-	(2,540)
Balance at 31 March 2022	**913**	**-**	**-**	**913**

LEASE LIABILITIES	Land and buildings £000	Plant and equipment £000	Motor Vehicles £000	Total £000
Balance at 1 April 2020	1,802	2,274	32	4,108
Additions to lease liabilities	-	90	-	90
Interest expense	107	152	1	260
Lease payments	(340)	(304)	(27)	(671)
Balance at 31 March 2021	1,569	2,212	6	3,787
Interest expense	92	136	-	228
Lease payments	(340)	(469)	(6)	(815)
Transferred to liabilities relating to disposal group	(319)	(1,856)	-	(2,175)
Balance at 31 March 2022	**1,002**	**23**	**-**	**1,025**

AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2022				2021			
	Land and buildings	**Plant and equipment**	**Motor Vehicles**	**Total**	Land and buildings	Plant and equipment	Motor Vehicles	Total
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Continuing Operation								
Depreciation charge on right of use assets	**122**	**3**	**6**	**131**	123	3	23	149
Interest on lease liabilities	**67**	**-**	**-**	**67**	73	-	1	74
Expenses related to low value and short-term leases	**18**	**-**	**-**	**18**	20	3	-	23
	207	**3**	**6**	**216**	216	6	24	246
Discontinued Operation								
Depreciation charge on right of use assets	**91**	**131**	**-**	**222**	137	119	-	256
Interest on lease liabilities	**25**	**136**	**-**	**161**	34	152	-	186
Expenses related to low value and short-term leases	**-**	**-**	**-**	**-**	-	-	-	-
	116	**267**	**-**	**383**	171	271	-	442

LEASE LIABILITIES - MATURITY ANALYSIS OF CONTRACTUAL UNDISCOUNTED CASH FLOWS

	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
31 March 2022	**3,200**	**3,740**	**439**	**426**	**812**	**1,623**	**440**
Total relating to discontinued operation	**2,175**	**2,462**	**352**	**340**	**639**	**1,131**	**-**
Total relating to continuing operation	**1,025**	**1,278**	**87**	**86**	**173**	**492**	**440**
31 March 2021	3,787	4,643	390	441	865	2,216	731
Total relating to discontinued operation	2,650	3,098	291	344	692	1,771	-
Total relating to continuing operation	1,137	1,545	99	97	173	445	731

12 SHARE CAPITAL

In thousands of shares	**Ordinary shares 2022**	Ordinary shares 2021
In issue at 1 April	**114,491**	113,525
Issued by the Company	**-**	966
Shares on the market at 31 March - fully paid	**114,491**	114,491

Allotted, called up and fully paid	**£000**	£000
114,490,828 *(2021: 114,490,828)* ordinary shares of £0.01 each	**1,145**	1,145
63 deferred shares of £0.10 each	**-**	-
	1,145	1,145

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

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

Dividends
During the year and prior year no dividends were proposed or paid. After the balance sheet date, the Board proposed no final dividend would be made *(2021: £nil)*.

13 DISCONTINUED OPERATION

On 19 May 2022, the group announced the sale of its manufacturing operation based in Manchester. The manufacturing operation, referred to as *'Works Manchester'* consists of the legal entity, Works Manchester Limited, along with the Manchester based production assets, related leases and staff contracts of Grafenia Operations Limited. Accordingly, these assets and liabilities have been designated as held for sale and separately disclosed in the statement of financial position and the financial impact of the discontinued operation is separately disclosed in the Statement of comprehensive income.

Following the disposal, Grafenia entered into a 5 year supply agreement with Works Manchester Limited to provide products to our Company stores and Partners. This change reduces the gross profit percentage of the group, but at the same time reduces staff costs and overheads. To accurately reflect the performance of continuing operations, the Statement of comprehensive income has been presented to show the results had the disposal and new supply agreement been in effect for both the current and the comparative financial years.

Effect on group statement of financial position

	Initial recognition	Re-measurement to fair value	**Held for disposal**
	£000	£000	**£000**
Property plant and equipment	3,442	(457)	**2,985**
Intangible assets	1,728	(229)	**1,499**
Inventories	464	-	**464**
Trade and other receivables	1,157	-	**1,157**
Cash and cash equivalent	129		**129**
Asset relating to disposal group	6,920	(686)	**6,234**
Invoice finance	(512)	-	**(512)**
Lease liabilities	(2,175)	-	**(2,175)**
Trade and other payables	(835)	-	**(835)**
Deferred tax liabilities	(8)	-	**(8)**
Liabilities relating to disposal group	(3,530)	-	**(3,530)**
Net asset and liabilities of discontinued operations	3,390	(686)	**2,704**

Total discounted cash consideration will be received for this disposal is £2.7m (£3.165m gross consideration) which is greater than the carrying value of the discontinued operations recognised. The subsequent impairment of £686,000 has been separately disclosed under re-measurement to fair value on discontinued operations in the Consolidated statement of comprehensive income.

14 POST BALANCE SHEET EVENTS

On 19 May 2022, Grafenia plc announced that it had agreed to sell its wholly-owned subsidiary Works Manchester Limited, formerly Image Everything Limited, and certain business and assets of its wholly owned subsidiary Grafenia Operations Limited to Rymack Sign Solutions Limited, a privately owned company trading as PFI Group, for cash consideration of £3,165,000. Of this consideration, £100,000 is payable over the first 3 months and then £766,250 on the first four anniversaries of the sale. The transaction was subsequently completed on 31 May 2022. The financial impact of this disposal is shown in the primary financial statements and is discussed further in note 13.

15 ANNUAL REPORT

The Annual Report and Notice of AGM will be sent to shareholders on or around 17 August 2022 and will be available on the Company's website www.grafenia.com from that date.