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.

26 July 2023

Grafenia plc

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

Preliminary Results for the year ended 31 March 2023

Grafenia plc (AIM: GRA) announces its full year audited results for the year ended 31 March 2023.

Financial highlights

	Year ended 31 March 2023	Year ended 31 March 2022
Revenue	**£12.55m**	£12.36m
EBITDA*	**£0.46m**	£0.33m
EBITDA from continuing operations	**£0.41m**	£0.17m
Total Comprehensive Loss	**£(1.61)m**	£(1.84)m
EPS	**(1.41)p**	(1.60)p
Cash and cash equivalent**	**£1.99m**	£1.59m
Net debt**	**£(16.72)m**	£(5.25)m

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

Operational highlights

- Completed the sale and separation of Works Manchester
- Acquired four software companies
- Raised £9.52m through additional bond issue to fund acquisitions

For further information:

Grafenia plc	
Gavin Cockerill (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 / Piers Shimwell (Corporate Finance)	

Chairman's Statement

I started last year's Chairman' Statement by saying: "Going forward, we will double down on the software & systems part of our business."

And double down we did!

Today, a total of five software businesses are part of the Group. Importantly, our executive team built this from our nucleus: the Nettl Systems business. As explained last year, the heritage of our firm is to use software and systems to help clients. That DNA has provided the right base to welcome several VMS companies into the Grafenia family over the course of the last fiscal year.

But first things first: here is our scorecard of the 2022/23 financial year:

Operational Performance

In the last financial year, our turnover increased by 1.5% to **£12.55m** *(2022: £12.36m).* Of this, £11.68m *(2022: £8.92m)* related to continuing operations with £2.15m coming from our new acquisitions. Overall gross profit decreased by 4.6% to **£6.39m** *(2022: £6.70m)* following the sale of Works Manchester and the resulting reduction in product sales margin. On continuing operations, gross profit increased 62.4% to **£5.75m** *(2022: £3.54m)*, an improved margin of **49.2%** (2022: 39.7%) from the addition of high margin software licence fees from the acquired companies.

The year showed EBITDA, which is earnings before interest, tax, depreciation and amortisation, of **£0.46m** *(2022: £0.33m).* Our total comprehensive loss for the year reduced to **£1.61m** versus £1.84m last year.

We finished the fiscal year with cash of **£1.99m** *(2022: £1.59m of which £0.13m related to discontinued operations)* and net debt of **£16.72m** *(2022: net debt £5.25m)*. We invested **£8.37m**, net of cash, on the acquisition of software companies, and capitalised **£0.39m** in development expenditure *(2022: £0.55m)*.

These figures are still very much influenced by the transition that the business has been undergoing. In the CEO's report, we are going to provide some additional colour on the underlying revenues and profits of the Group. I fully expect next year's Operational Performance section in the Chairman's Statement to reflect the company operating as a simpler and tidy software group.

People at Grafenia

During the last financial year under review, we welcomed the teams of Vertical Plus, Watermark Technologies, Care Management Systems and Topfloor Systems to our Group. 71 new team members joined us.

Sometimes you have to get smaller to grow bigger. At the beginning of the financial year, our team drastically reduced after the sale of our former manufacturing business. That has allowed us to focus and subsequently, scale again.

Many people deserve praise for this execution. In general, transformations are never easy. Transformations in public companies - where each step needs to be communicated and receives public scrutiny - can be particularly tough.

On behalf of my other non-executive Board members and all shareholders, I would like to express my sincere appreciation for the hard work that our executive team has put into this transformation.

We can be proud of the reliability and efficiency of our FD, Iain and our Company Secretary, Richard. Large parts of the heavy lifting in the transformation have been their workstreams. Both executed this very well.

Roman, our M&A director, has excelled at finding and analysing potential software businesses to join our Group. The speed of acquisition while not compromising on business and team quality has been a true success story. Thank you, Roman.

On 3 May, we named Gavin as CEO after a thorough evaluation process of the Board. We are really proud of the work Gavin has done reshaping the organisation through the last year. We are keen to see him lead the Group during the scale up over the coming years!

Outlook and Current Priorities

In the next few years, our priorities will be all about scaling our acquisition and management processes to become the best owner for the right software companies, their founders, teams and customers. The current focus is the UK and Ireland.

As announced in our Pre-Close Statement on 3 May, we are currently exploring funding options to support our growth strategy, both in terms of new acquisitions and funding existing obligations. We will update the market in due course on what course of action we propose to that end.

In past Chairman's Statements I repeatedly said: "The success of my tenure should be measured by whether we figure out a way to make better use of our public listing."

More than ever, I want to be held accountable to that statement and to the ambition to use our public listing in a more sensible manner. Very clearly, I haven't been successful yet but feel more positive than ever that our strategy of acquiring software companies is the best route forward to sustainable value creation. Several successful public peers in VMS come to mind. If Grafenia only achieves a small share of their success, shareholders will be greatly rewarded.

We have the right team, the right operating model and, hopefully soon, the right funding strategy in place to win. I want to thank all of our shareholders for their patience and support over the years and our transformative last financial year in particular.

Our AGM will take place in September 2023. I hope to see you there and to get the opportunity to discuss our strategy in more detail!

Jan-Hendrik Mohr
Chairman

Chief Executive's Statement

Dear Shareholders,

It has been a year of progress for the Company. Previously, we reported on the efforts and energy that had gone into preparing the business for its transition. In order to grow the size of our Group. To become a serial acquirer of VMS businesses.

As we've executed our plans, although it is early days, we've started to see those efforts bear fruit. It's important to say at the outset that our newly expanded portfolio of companies not only represents a change in our operational approach, but also fundamentally alters the way we understand our identity, communicate our progress, and report our performance.

First of all, as always, we'd like to sincerely thank our teams for their hard work and dedication throughout our evolution. We've welcomed a great number of new people into the Group this year. We recognise and appreciate the efforts of each and every partner and team member across all of our operating companies.

We've grown again this year, ending the full year with sales from continuing operations of **£11.7m** *(2022: £8.9m)*. An addition of **£2.8m.**

£0.6m *(7%)* came from organic growth of our Nettl Systems business unit and **£2.2m** *(25%)* from the addition of four newly acquired business units.

Historically, Grafenia has been known predominantly within the graphics sector. As the market changed, we changed with it. Over the years, moving from a franchise model with printing.com to a software and brand licensing model with Nettl Systems. In both cases, the 'secret sauce' was always the software. We've built software our entire life. It runs our business and we licence it around the world.

Given the Company's background in software, in 2021, we announced a change in our acquisition plans. To focus on and invest in building the structure required to become a serial acquirer of VMS businesses.

The first step in the transformation was the sale of our production facility Works Manchester. That moved our business away from asset-heavy manufacturing, enabling us to focus on software and systems.

This did not change the Nettl Systems offering to our partners. Works Manchester became the largest Works Maker, supplying printed product via our platforms. What it meant was, our Nettl Systems business became a software operation, with a significantly reduced cost base. But as a group, we became smaller as a result of the divestment, with the same central costs. Growing the size of the Group, faster, became the priority.

The next step in the transformation was to ramp up our acquisition activity with the aim of achieving that growth. We now have a well developed deal process and acquisition 'flywheel' which has resulted in four new acquisitions during the previous financial year and a healthy pipeline of deal flow. This will be the continuing focus of the Group moving forward with the aim of driving long-term shareholder value.

To date we've funded the initial consideration of the acquisitions through the issue of bonds. During the year we issued **£11.2m** of bonds, at nominal value, raising **£9.5m** before expenses. We deployed **£9.6m** of capital, including **£0.3m** of deal costs.

Bond Utilisation

	Initial Consideration	Deferred Consideration	Bond 1 (Cash)	Bond 2 (Cash)	Bond 3 (Cash)	Total (Cash)
	-	-	**£4.25m**	**£2.72m**	**£2.55m**	**£9.52m**
Vertical Plus	£1.25m	£1.00m	£1.25m	-	-	
Watermark	£1.50m	£1.00m	£1.50m	-	-	
Care Docs	£2.98m	£0.52m	-	£2.98m	-	
Topfloor	£3.42m*	£0.85m*	-	-	£3.42m*	
Total Consideration	**£9.15m**	**£3.37m**				**£12.52m**
Capital Deployed			**£2.75m**	**£2.98m**	**£3.42m**	**£9.15m**
Difference			***£1.5m***	***-£0.26m***	***-£0.87m***	***£0.37m***

*EUR to GBP conversion as at 17/02/23 = 0.89

Our method

Software Circle is the name we give our specialist M&A team. Led by M&A Director, Roman Rothenberg, we're continually reaching out to and evaluating VMS business targets, as owners look to retire, succession plan or be part of something bigger. We find potential acquisitions through our outreach program, engaging with niche, business-to-business, and mission-critical platforms.

We look for businesses where the majority of revenues are recurring in nature and logo churn is low. The sustainability of our strategy is underpinned by the recurring revenue model. This approach allows for a more reliable revenue stream, promoting long-term stability.

Take a look at www.grafenia.com/acquisition to see the full detail. The businesses we have acquired – and our current targets – have been stable or shown growth over the past three years.

We've invested in building our acquisition 'flywheel'. A structured approach to drive leads and identify potential acquisition targets.

To help us find and prioritise the right kind of deals, we have a framework, a set of what we call 'Guard Rails'. For example:

- Target is UK/IE based
- Has a clearly defined niche market
- Majority of revenues are recurring in nature, a minimum of £500k per annum
- Valuation Multiple within range (adj EBITDA)
- Logo Churn < 10%
- Customer Concentration as % of Recurring Revenue is low
- Number of Customers > 30

Once acquired, each business is run in a decentralised way by its own senior management team, supported by the Grafenia Board. Including Nettl Systems, where Chris Lowe has been promoted to become managing director, having led our Licensed Partner teams for over six years.

When operating our business units, we actively avoid any centralisation where possible. Keeping the entrepreneurial spirit and culture that exists in the businesses we acquire. Avoiding the inherent risks associated with integration.

Our aim is to become the permanent home for those businesses and their management talent. Depending on the reason for the sale, sometimes the owners remain. Sometimes the owners leave as part of the deal but have an existing management team in place. Other times, we'll hire a managing director to replace the owners during a transition period.

Once there is mutual conviction that a target is right, we value a business based on a multiple of its adjusted earnings. Our experience from the first four deals we've completed suggests we are able to acquire VMS businesses within our targeted adjusted EBITDA range.

Our progress so far
Over the last 12 months, we set out to prove three things. That we can find and buy businesses that meet our criteria within the valuation metrics that we set. That we can complete those deals quickly and efficiently. And of course, that we can successfully operate those businesses.

A year on, we've made four acquisitions and Grafenia is now home to five software business units (including Nettl Systems) that match our criteria, across multiple sectors. The Group looks a little different today. We no longer own the production facility Works Manchester and Grafenia no longer exists solely in the graphics space. Our portfolio of businesses now operate primarily within the following sectors: Graphics and Ecommerce, Finance, Property and Care Management. Further information on the acquisitions made during the year can be found in note 14.

Vertical Plus Limited (Vertical Plus)
In October 2022, we acquired Vertical Plus, an E-commerce storefront and Inventory management platform operating in the UK, for a consideration of £2.25m plus an earnout of up to £0.63m. Recurring revenues are generated through licence fees to access the software and royalties from sales generated via the platform.

Two owner managers left the business, one remaining for a transition period as a consultant and sales director, Justin Smith, formerly also an owner, was promoted to managing director upon completion.

Watermark Technologies Limited (Watermark)
In December 2022, we acquired Watermark, a document management platform optimised for independent financial advisors and other financial services operating in the UK, for a consideration of £2.5m. Watermark provide services through both its office-based 'Volume' system and its cloud-based 'Papercloud' platform. Recurring revenues are generated through licence fees to access the software.

Two founder managers left the business, both remaining for a transition period as consultants. James Hughes, involved during the acquisition process, moved from our Software Circle team to become managing director and drive the business forward.

Care Management Systems Limited (Care Docs)
In January 2023, we acquired Care Management Systems t/a Care Docs, a care home management platform operating in the UK, for a consideration of £3.5m. Recurring revenues are generated through licence fees to access the software on each device required.

Two founder managers left the business, one remaining for a transition period as a consultant. A management team was already in place, Alan Pocock (General Manager), Sarah Conn (Sales Director) and James Leyland (Customer Engagement and Marketing Director). All remain post completion.

Topfloor Systems Limited (Topfloor)
In February 2023, we acquired Topfloor, a property management platform operating in the UK and Ireland, for a consideration of €4.8m plus an earnout of up to €1.4m. Topfloor provide software services for property management through its 'Blockman' and 'Letman' platforms. Blockman - a web based application for apartment blocks and estate managing agents and Letman - a web based application for lease administration and client rent accounting of residential property units. Recurring revenues are generated through licence fees to access the software.

One of three founder managers left upon completion. Two remain, the CEO Niall Wrafter and CTO Cathal Browne.

Historic Performance - Sales in last 3 financial years* (unaudited):

*Respective financial year for each business
**EUR to GBP conversion as at 17/02/23 = 0.89

Financial year	2020	2021	2022
Total Sales**	£6.2m	£7.1m	£7.1m
Vertical Plus	£1.8m	£2.4m	£2.0m
Watermark	£1.2m	£1.2m	£1.2m
Care Docs	£2.1m	£2.3m	£2.5m
Topfloor	€1.2m	€1.4m	€1.6m

We have successfully onboarded our newly acquired businesses and they are contributing to profitability.

Our five operating businesses generated a positive EBITDA of **£0.8m** after Group central costs of **£0.9m**. Central costs include our Executive and Non-Executive teams, Software Circle and other central salaries, audit fees, other advisor fees, bond fees and AGM costs.

After deducting the associated non-recurring deal costs of £0.3m involved in the acquisitions, the EBITDA for the year was **£0.5m** *(2022 £0.3m).*

The four acquisitions have a combined annualised turnover of over ~£7.0m. **£2.2m** of total sales in the financial year were generated by these acquisitions, having been acquired during the latter stages of the financial year.

We plan to drive organic growth across the Group by benchmarking key performance metrics, providing focus, structure and know-how around operational best practice. Ultimately, we acquire these businesses for what they can do for the Company i.e. bring recurring revenues and profit.

Nettl Systems

Our Nettl Systems business today, is what you may have known the Grafenia Group to be this time last year. Licencing software and brands to graphic professionals. Nettl Systems licences printing.com and Nettl directly in the UK and Ireland. Also licencing Nettl in Belgium, France, the Netherlands and in the USA. In Australia and New Zealand, we master licence to our partner.

Operating Nettl company stores and online print stores also remains part of the Nettl Systems business. Collectively contributing **£4.5m** of total sales *(2022: £4.3m)*.

Overall, Nettl Systems generated **£9.5m** of sales *(2022: £8.9m)*. A 7% year-on-year increase. That’s a welcome result, but it was coming off a year still impacted by the COVID pandemic. We expect Nettl Systems to grow organically, as we continually develop the platform to future-proof our partners and increase the product range to help them say yes to clients, more often. But that growth may be more modest, and may not significantly 'move the needle' in terms of Group size. Our focus at Group level, is therefore on scaling by way of acquisition.

Operating Business Unit Sales:

Below you’ll see a breakdown of the sales contribution of our five operating business units for the period since acquisition.

Business Unit	Sector	Revenue Category	Date Acquired	Initial Consideration	Deferred Consideration	Group Sales 2023
Nettl Systems	Graphics & Ecommerce	Graphics & Ecommerce	n/a	n/a	n/a	£9.53m
Vertical Plus	Ecommerce	Graphics & Ecommerce	01/10/22	£1.25m	£1.00m	£1.01m
Watermark	Document Management	Professional Services	07/12/22	£1.50m	£1.00m	£0.42m
Care Docs	Care Home Management	Health and Care	18/01/23	£2.98m	£0.52m	£0.55m
Topfloor	Property Management	Property	17/02/23	£3.42m	£0.85m	£0.17m
			Total	**£9.15m**	**£3.37m**	**£11.68m**

Current trading and outlook

Our new financial year started in April. We're currently trading in line with our internal forecasts and newly acquired business units are performing as expected. With the acquisitions we've added to the Group, on a run-rate basis, annualised sales would be approximately **£17m**. We're therefore cautiously optimistic about the upcoming year. With a full year's trade from our newly acquired businesses, our goal of achieving EBITDA at 10-15% of sales, after central costs, remains a realistic target.

As we further reposition our business, the search for VMS businesses continues and our deal flow looks healthy. As previously announced, we are looking to raise additional funds to continue the execution of our acquisition strategy, both in terms of new acquisitions and funding existing obligations, and the growth of the Group.

Thank you for your continued support. I hope to see you in person at our AGM.

Gavin Cockerill
Chief Executive Officer

Financial Review

Revenue
Group revenue for the year was **£12.55m**, *(2022: £12.36m)*, an increase of 1.5% year-on-year. That change is best visualised in the following table:

Business Unit	**Group Sales 2023**	**Group Sales 2022**
Graphics & Ecommerce	£10.54m	£8.92m
Professional services	£0.42m	n/a
Healthcare	£0.55m	n/a
Property	£0.17m	n/a
Discontinued Operations	£0.87m	£3.44m
	£12.55m	**£12.36m**

Our Graphics and Ecommerce division contains the pre-existing Nettl Systems business plus the newly acquired business of Vertical Plus. Like-for-like Nettl Systems revenue grew to **£9.53m** (2022: £8.92m), a 7% increase as product volumes continued to recover from the pandemic impacted years and inflationary price increases were applied. The addition of Vertical Plus added an additional **£1.01m** of revenue in the second half of the year.

Additional divisions have been created for the three other acquisitions, further contributing a combined **£1.14m** of predominately recurring revenue. As a result, Licence and subscription revenue generated by the Group rose to **£4.10m** (2022: 2.14m).

Gross profit
Gross profit of the Group decreased to **£6.39m** *(2022: £6.70m)*. The fall results from the sale of the discontinued operation, Works Manchester, on 31 May 2022 with gross profit from discontinued operations reducing to **£0.64m** *(2022: £3.16m).* When we sold Works Manchester we entered into a 5 year supply agreement to provide products to our Company stores and Partners. This change in how we operate reduces the gross profit percentage of the Group, but at the same time reduces staff costs and overheads.

Gross profit from continuing operations was **£5.75m** *(2022: £3.54m)* and a gross margin percentage increase of **49.2%** *(2022: 39.7%)* reflects the increase in recurring licence fee based revenue. For the newly acquired businesses, the directly related costs of providing the service tend to be a low percentage of revenue, mainly consisting of the server costs required to run the different platforms. Like-for-like, the gross margin within our Nettl Systems operations was **41.1%** *(2022: 39.7%)* reflecting the impact in the year of inflationary price rises made in both this and the prior financial year as production costs have continued to rise. Unfortunately, costs continue to rise and we continue to monitor our selling prices accordingly.

Other operating costs
Overall staff costs decreased by 8% to **£3.89m** *(2022: £4.24m)* whilst the average number of persons employed fell by 37% to **92** *(2022: 146)*. An element of this mis-match relates to wage inflation, but the primary driver is due to the change in the make-up of the staff base, with traditionally lower paid manufacturing roles leaving the Group on the sale of Works Manchester and higher paid software engineering roles coming in.

Other operating charges were **£1.96m** *(2022: £2.09m)* with significant overheads removed as a result of the sale of the primary production facility in Manchester. The acquisitions are comparatively light in overheads, we have however incurred acquisition related costs in the year, comprising legal and professional fees plus associated stamp duty. Across the four acquisitions these totalled **£0.35m** in the year under review.

Profitability

This has been impacted in the year following a writedown of **£0.81m** against consideration receivable following a missed instalment from Rymack Signs Solutions limited on 31 May 2023. This, combined with the factors discussed above, resulted in a pre-tax loss of **£2.62m** *(2022: £1.71m)* and a loss per share of **1.41p** *(2022: 1.60p)*. Our earnings before interest, tax, depreciation and amortisation (EBITDA) was **£0.46m** *(2022: £0.33m)*. Excluding Works Manchester, EBITDA was **£0.41m** *(2022: 0.17m)*. Within this, the newly acquired subsidiaries, excluding the related costs of acquisition, have contributed **£0.72m**. The Parent Company result for the year was a loss of **£2.21m** *(2022: loss £0.41m)*.

Operating Cash Flow

The Group generated **£0.30m** of cash through operating activities *(2022: generated £0.13m)*. The sale of Works Manchester has impacted working capital in the year as more favourable terms with multiple suppliers could not be supported under one credit arrangement when Works Manchester became the primary supplier to Nettl Systems.

Investment activity

We continued our investment in the Group's software platforms, totalling **£0.39m** *(2022: £0.55m)*, with continued enhancements and new features to the Group's SaaS platforms. The primary investment activity in the year has been that of new subsidiaries, with **£8.37m** deployed, net of cash acquired.

Financing activity

In order to finance the investment above, as well as the associated legal and professional fees and stamp duty, we have issued £11.20m nominal value of bonds, raising **£9.52m** before expenses. Interest payments on this facility do not commence until August 2024.

Loan repayments related to our CBILS facility totalled **£0.31m** *(2022: 0.20m).* Monthly payments on this facility continue until April 2025.

We finished the financial year with cash of **£1.99m** *(2022: £1.59m of which £0.13m related to discontinued operations).* Net debt rose to **£16.72m** *(2022: net debt of £5.25m)* on account of the additional bonds issued and future consideration payments for the acquired businesses.

KPIs

Management monitors a number of KPIs, which underpin the performance of the Group and its operating businesses. The financial KPIs are Revenue, Recurring Revenue from licence and subscriptions, EBITDA and overall profit or 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.

There are also a number of non-financial KPIs which management monitors, that ultimately drive the financial performance of our operating businesses. We use these KPIs when assessing the suitability of acquisition targets as well as benchmarking post acquisition performance. We track changes in monthly recurring revenues (MRR) in order to measure Logo Churn percentage - the rate at which a SaaS or subscription company is losing customers, on an ongoing basis. Although acquiring new customers is a core goal of any SaaS company, ensuring the retention of subscribing customers is just as important. We also measure a number of cost base categories as a percentage of Annual Recurring Revenues (ARR) to benchmark operational efficiencies.

Outlook

Whilst this year has been very different from the last, next year we expect more of the same. As the acquired businesses contribute a full financial year, we expect more recurring revenue growth and more growth in EBITDA. With the acquisitions we've added to the Group, on a run-rate basis annualised revenue would be approximately £17m. Our stated goal for a number of years has to reach 10%-15% EBITDA in the mid-term, we now believe this is a realistic target for the upcoming year. Our search for software businesses continues, our deal flow looks healthy and we are currently considering raising additional funds to continue the execution of our acquisition strategy, and the growth of the Group.

Principal Risks and Uncertainties

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

Risk	Potential Impact	Mitigation
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. Changes in interest rates could impact the ability to raise required capital to fund the acquisition strategy	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	Some of 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.
Acquisition of a sub-optimal business	A poor performing acquisition would consume management time, focus and Group cash flows	We operate a structured and rigorous due-diligence process when assessing potential acquisitions to ensure the target meets our acquisition criteria and establish the quality of its earnings. We also model alternative scenarios and build contingency plans for each.
Technological change	Advances in software and advances in artificial intelligence may impact on operational effectiveness and earnings potential.	We are constantly improving our platforms and adding new features to ensure we remain at the forefront of technological advancement.
Technological failure	The Group and its clients depend on the 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 2023	*Note*	**2023 £000 Continuing operation**	**2023 £000 Discontinued operation**	**2023 £000 Total**	2022 £000 Continuing operation	2022 £000 Discontinued operation	2022 £000 Total
Revenue	2	**11,677**	**870**	**12,547**	8,916	3,445	12,361
Cost of sales		**(5,927)**	**(235)**	**(6,162)**	(5,377)	(286)	(5,663)
Gross profit		**5,750**	**635**	**6,385**	3,539	3,159	6,698
Staff costs		**(3,471)**	**(417)**	**(3,888)**	(2,019)	(2,221)	(4,240)
Doubtful debt expense		**(68)**	**(10)**	**(78)**	(32)	(11)	(43)
Other operating charges		**(1,806)**	**(155)**	**(1,961)**	(1,322)	(763)	(2,085)
Earnings before interest, tax, depreciation and amortisation		**405**	**53**	**458**	166	164	330
Depreciation and amortisation	6&7	**(1,556)**	**-**	**(1,556)**	(944)	(569)	(1,513)
Operating loss		**(1,151)**	**53**	**(1,098)**	(778)	(405)	(1,183)
Impairment of assets	15	**(805)**	**-**	**(805)**	-	-	-
Financial income		**135**	**-**	**135**	6	-	6
Financial expenses		**(830)**	**(21)**	**(851)**	(346)	(186)	(532)
Net financing expense		**(695)**	**(21)**	**(716)**	(340)	(186)	(526)
Loss before tax		**(2,651)**	**32**	**(2,619)**	(1,118)	(591)	(1,709)
Tax income	3	**1,243**	**-**	**1,243**	559	-	559
Loss for the year		**(1,408)**	**32**	**(1,376)**	(559)	(591)	(1,150)
Re-measurement to fair value on discontinued operations	13	**-**	**(235)**	**(235)**	-	(686)	(686)
Loss and total comprehensive income for the year		**(1,408)**	**(203)**	**(1,611)**	(559)	(1,277)	(1,836)
Loss per share attributable to the ordinary equity shareholders of Grafenia plc Basic and diluted, pence per share	4	**(1.23)p**	**(0.18)p**	**(1.41)p**	(0.49)p	(1.12)p	(1.60)p

Consolidated statement of financial position

AT 31 MARCH 2023	Note	**Group 2023 £000**	Group 2022 £000
Non-current assets			
Property, plant and equipment	6	**1,384**	1,077
Intangible assets	7	**16,266**	1,391
Total non-current assets		**17,650**	2,468
Current assets			
Inventories		**31**	29
Trade and other receivables	8	**2,137**	1,281
Consideration receivable	15	**1,698**	-
Prepayments		**110**	283
Cash and cash equivalents		**1,994**	1,462
Asset held for sale/disposal group	13	**-**	6,234
Total current assets		**5,970**	9,289
Total assets		**23,620**	11,757
Current liabilities			
Other interest-bearing loans and borrowings	10	**3,879**	308
Trade and other payables	9	**1,817**	1,512
Deferred income	9	**186**	77
Liabilities relating to disposal group	13	**-**	3,530
Total current liabilities		**5,882**	5,427
Non-current liabilities			
Other interest-bearing loans and borrowings	10	**14,837**	3,842
Deferred tax liabilities	5	**1,973**	-
Total non-current liabilities		**16,810**	3,842
Total liabilities		**22,692**	9,269
Net assets		**928**	2,488
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**	88
Translation reserve		**117**	66
Retained earnings		**(9,126)**	(7,515)
Total equity		**928**	2,488

Consolidated statement of changes in shareholders' equity

YEAR ENDED 31 MARCH 2023

	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 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
Loss and total comprehensive income for the year from continuing operation	-	-	-	-	-	(1,408)	(1,408)
Loss and total comprehensive income for the year from discontinued operation	-	-	-	-	-	(203)	(203)
Retranslation of net assets of overseas subsidiaries	-	-	-	-	51	-	51
Share option reserve	-	-	-	-	-	-	-
Total movement in equity	-	-	-	-	51	(1,611)	(1,560)
Balance at 31 March 2023	**1,145**	**838**	**7,866**	**88**	**117**	**(9,126)**	**928**

Consolidated statement of cash flows

FOR YEAR ENDED 31 MARCH 2023	Note	**Group 2023 £000**	Group 2022 £000
Cash flows from operating activities			
Loss for the year		**(1,408)**	(559)
Adjustments for:			
Depreciation, amortisation and impairment		**1,556**	944
Loss on disposal of plant and equipment		**4**	-
Release of deferred profit on sale of plant and equipment		**-**	(9)
Share based payments		**-**	4
Net finance expense		**695**	340
Bad debt expense		**68**	(54)
Foreign exchange loss		**51**	66
Tax income		**(1,243)**	(559)
Impairment of consideration receivable	15	**805**	-
Operating cash flow before changes in working capital and provisions		**528**	173
Change in trade and other receivables		**19**	(86)
Change in inventories		**(2)**	2
Change in trade and other payables		**(413)**	184
Cash generated from / (utilised by) operations		**132**	273
Interest received		**5**	-
R&D tax income received		**67**	-
Net cash inflow / (outflow) from operating activities from continuing operation		**204**	273
Net cash inflow / (outflow) from operating activities from discontinued operation		**104**	(139)
Net cash inflow / (outflow) from operating activities		**308**	134
Cash flows from investing activities			
Acquisition of plant and equipment		**(60)**	(27)
Disposal of plant and equipment		**1**	-
Capitalised development expenditure	7	**(390)**	(525)
Acquisition of other intangible assets	7	**-**	(20)
Proceeds from disposal of subsidiary		**100**	-
Acquisition of subsidiaries net of cash		**(8,367)**	-
Net cash used in investing activities from continuing operation		**(8,716)**	(572)
Net cash used in investing activities from discontinued operation		**-**	(3)
Net cash used in investing activities		**(8,716)**	(575)
Cash flows from financing activities			
Proceeds from loans		**9,520**	-
Repayment of loans	10	**(305)**	(196)
Capital payment of lease liabilities		**(117)**	(115)
Interest payment of lease liabilities		**(63)**	(67)
Net cash generated from/(used in) financing activities from continuing operation		**9,035**	(378)
Net cash used in financing activities from discontinued operation		**(95)**	(330)
Net cash generated from/(used in) financing activities		**8,940**	(708)
Net increase / (decrease) in cash and cash equivalents from continuing operations		**523**	(677)
Net increase / (decrease) in cash and cash equivalent from discontinued operations		**9**	(472)
Cash and cash equivalents at start of year		**1,462**	2,740
Cash and cash equivalents at 31 March 2023		**1,994**	1,591

Comprises of:		
Cash and cash equivalent from continuing operation	**1,994**	1,462
Cash and cash equivalent from discontinued operation	**-**	129

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 2022.

The comparative figures for the year ended 31 March 2022 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 25 July 2023.

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 recognise the need to raise additional funds in order to meet both liabilities for consideration payable in respect of past acquisitions and ongoing working capital. Whilst this creates a material uncertainty, we anticipate being able to raise such funds through the issue of new share capital and/or by raising additional debt finance. The Directors have 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 and negotiating the timing of future payment obligations.

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

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. It is essential to continue investing in these assets. Separate projects are defined 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 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 technology. The valuation is based upon future discounted cash flows and expectations for the business. For VMS businesses acquired in line with the Group's stated strategy, the expected useful lives of the customer base has been determined by reviewing the existing Logo churn at the time of acquisition whilst the Technology's expected useful life is estimated based on the expected requirement for ongoing development.

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 does this for each tranche of bond issued. The expected life of bond tranches issued to date ranges from 9 months to 20 years. 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

Following the change in strategy of the Group the format of the segmental reporting has been updated. The Group's operating and reporting segments in the current year corresponds with the acquisition activity, see note 14 for further details on acquisitions made during the year. This disclosure correlates with the information which is presented to the Board, which reviews revenue and EBITDA 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 2023	**11,845**	**284**	**418**	**12,547**
Year ended 31 March 2022	11,723	289	349	12,361

Revenue generated outside the UK is attributable to partners in Belgium, France, New Zealand, The Netherlands and the USA within the Nettl Systems business segment.

No single customer provided the Group with over 3% of its revenue.

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

Year ended 31 March 2023	Graphics & Ecommerce £000	Professional services £000	Healthcare £000	Property	Discontinued Operations £'000	Total
Licence and subscription revenue	3,000	387	544	173	-	**4,104**
Product and service revenue	7,538	35	-	-	870	**8,443**
Revenue	**10,538**	**422**	**544**	**173**	**870**	**12,547**
Divisional contribution	1,192	178	241	94	53	**1,758**
Central Overhead						**(947)**
Acquisition related costs						**(353)**
EBITDA						**458**

Year ended 31 March 2022	Graphics & Ecommerce £000	Professional services £000	Healthcare £000	Property	Discontinued Operations £'000	Total
Licence and subscription revenue	2,135	-	-	-	-	**2,135**
Product and service revenue	6,781	-	-	-	3,445	**10,226**
Revenue	**8,916**	**-**	**-**	**-**	**3,445**	**12,361**
Divisional contribution	742	-	-	-	164	**906**
Central Overhead						**(576)**
EBITDA						**330**

Of the Group's non-current assets (excluding deferred tax) of £17,650,000 *(2022: £2,468,000),* £12,907,000 *(2022: £2,475,000)* are located in the UK. Non-current assets located outside the UK are in Ireland £5,802,000 *(2022: £11,000).*

3 TAXATION

Recognised in the income statement	**2023 £000**	2022 £000
Current tax expense		
Current year	**(93)**	(166)
Adjustments for prior years	**(18)**	(12)
Overseas corporation tax charge	**2**	-
	(109)	(178)
Deferred tax expense		
Origination and reversal of temporary differences	**(170)**	(63)
Previously unrecognised deferred tax asset currently recognised	**(972)**	(318)
Effect of change in UK corporation tax rate	**3**	-
Adjustments in respect of prior periods	**5**	-
Total tax in income statement	**(1,243)**	(559)

RECONCILIATION OF EFFECTIVE TAX RATE

Factors affecting the tax charge for the current period:

The current tax charge for the period is lower *(2022: lower)* than the standard rate of corporation tax in the UK of 19% *(2022: 19%)*.

The differences are explained below:

	2023	2022
	£000	£000
Loss before tax	**(2,619)**	(1,991)
Tax using the UK corporation tax rate of 19% *(2022: 19%)*	**(498)**	(378)
Effects of:		
Other tax adjustments, reliefs and transfers	**124**	(530)
Adjustments in respect of prior periods – current tax	**(90)**	(11)
Adjustments in respect of prior periods – deferred tax	**6**	(1)
Deferred tax not recognised	**216**	584
Research and Development losses surrendered	**-**	219
Research and Development super deduction	**(29)**	(124)
Previously unrecognised deferred tax asset currently recognised (see note 5)	**(972)**	(318)
Total tax credit	**(1,243)**	(559)

The Group tax debtor amounts to £155,000 *(2022 Debtor: £167,000)*. The deferred tax liabilities as at 31 March 2023 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:

	2023	2022
	£000	£000
Loss after taxation for the financial year from continuing operations	**(1,408)**	(559)
Loss after taxation for the financial year from discontinued operations	**(203)**	(1,277)
Total loss after taxation for the financial year	**(1,611)**	(1,836)

	Weighted average number of Shares	Weighted average number of Shares
For basic earnings per ordinary share	**114,490,828**	114,490,828
For diluted earnings per ordinary share	**114,490,828**	114,490,828
Basic and diluted loss per share	**(1.41)p**	(1.60)p
Basic and diluted loss per share from continuing operation	**(1.23)p**	(0.49)p
Basic and diluted loss per share from discontinued operation	**(0.18)p**	(1.12)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 2023 £000**	Assets 2022 £000	**Liabilities 2023 £000**	Liabilities 2022 £000	**Total 2023 £000**	Total 2022 £000
Intangible assets	**-**	-	**(2,957)**	(318)	**(2,957)**	(318)
Trading losses	**984**	318	**-**	-	**984**	318
Tax asset/(liabilities)	**984**	318	**(2,957)**	(318)	**(1,973)**	-

Movement in deferred tax during the year.	**1 April 2022 £000**	**Recognised on acquisition of subsidiary £000**	**Recognised in income £000**	**Derecognised on disposal of subsidiary £000**	**31 March 2023 £000**
Intangible assets	**(318)**	**(3,107)**	**170**	**298**	**(2,957)**
Trading losses	**318**	**-**	**666**	**-**	**984**
	-	**(3,107)**	**836**	**298**	**(1,973)**

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	31 March 2022 £000
Intangible assets	(389)	-	63	8	(318)
Trading losses	-	-	318	-	318
	(389)	-	381	8	-

The Group has recognised a deferred tax asset in respect of carried forward trading losses up to the value of the deferred tax liability, to the extent that there are available tax losses within the same UK tax group. The Group has unrecognised deferred tax assets in respect of carried forward losses of £nil *(2022: £1,526,000).*

6 PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements £000	Plant and Equipment £000	Motor Vehicles £000	Fixtures and Fittings £000	Total £000
Cost					
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**
Additions	-	60	-	-	60
Addition through subsidiary acquisition	186	254	40	7	487
Disposals	-	(18)	-	(5)	(23)
Balance at 31 March 2023	**2,026**	**651**	**131**	**826**	**3,634**
Depreciation and impairment					
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
Depreciation charge for the year	127	36	5	67	235
Disposals	-	(14)	-	(4)	(18)
Balance at 31 March 2023	**1,054**	**327**	**90**	**779**	**2,250**
Net book value					
At 31 March 2021	1,479	3,111	19	456	5,065
At 31 March 2022	913	50	6	108	1,077
At 31 March 2023	**972**	**324**	**41**	**47**	**1,384**

Right-of-use assets are included within the same asset categories as they would have been if they were owned. As of 31 March 2023 the Group has right-of-use assets with a carrying value of £982,000 *(2022: £3,453,000).* Right-of-use of assets from discontinued operation is £nil *(2022: £2,540,000).* A table showing the net book value of right-of-use assets within property, plant and equipment at 31 March 2023 and 31 March 2022, split by category, is disclosed in note 11.

7 INTANGIBLE ASSETS

Group	Domains & brand £000	Software £000	Development costs £000	Customer Lists £000	Technology £000	Goodwill £000	Other £000	Total £000
Cost								
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
Additions – internally developed	-	-	390	-	-	-	-	390
Addition through subsidiary acquisition (note 14)	-	-	-	4,517	10,792	497	-	15,806
Balance at 31 March 2023	**363**	**4,544**	**5,393**	**5,192**	**10,792**	**635**	**162**	**27,081**
Amortisation and impairment								
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
Amortisation for the year	1	149	439	149	583	-	-	1,321
Balance at 31 March 2023	**348**	**4,483**	**4,513**	**745**	**583**	**12**	**131**	**10,815**
Net book value								
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
At 31 March 2023	**15**	**61**	**880**	**4,447**	**10,209**	**623**	**31**	**16,266**

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 and ranges from 0% to 9%. Costs have been assumed to increase in line with an inflationary rate of 5%.

For the purposes of impairment testing inflationary growth of 0.5% is assumed beyond this period. A pre-tax discount factor of 8.59% *(2022: 6.8%)* was applied.

Following the impairment review, the intangible assets are not considered to be impaired. Increasing the pre-tax discount factor to

12.0% would not result in an impairment charge against intangible assets.

Amortisation and impairment charge
The amortisation charge of £1,321,000 *(2022: £936,000)* is recognised in profit or loss within depreciation and amortisation expenses. £nil *(2022: £225,000)* from discontinued operation, £1,321,000 *(2022: £711,000)* from continuing operation. An impairment charge of nil *(2022: £nil)* was recognised during the year.

8 TRADE AND OTHER RECEIVABLES

At 31 March 2023 trade receivables are shown net of an impairment allowance of £1,153,000 *(2022: £1,089,000).*

Trade and other receivables denominated in currencies other than sterling comprise £899,000 *(2022: £114,000)* of trade receivables.

	2023	2022
	£000	£000
Trade receivables	**2,799**	3,290
Less provision for trade receivables	**(1,153)**	(1,089)
Trade receivables net	**1,646**	2,201
Total financial assets other than cash and cash equivalents classified at amortised cost	**1,646**	2,201
Corporation tax	**155**	167
Other receivables	**336**	70
Total Other receivables	**491**	237
Total trade and other receivables	**2,137**	2,438
Total relating to discontinued operation	**-**	1,157
Total relating to continuing operation	**2,137**	1,281

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

	Under 6 months	Over 6 months	Total
	£000	£000	£000
Gross carrying amount	1,350	1,449	2,799
Loss provision	(82)	(1,071)	(1,153)
Net carrying amount	1,268	378	1,646

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 2023 £000	As at 31 March 2022 £000
Balance at 1 April	**1,089**	1,090
Receivable written off during the year as uncollectible	**(83)**	(44)
Provision arising on acquisition of subsidiaries	**60**	-
Increase in impairment allowance	**87**	43
Balance at 31 March	**1,153**	1,089

Of the total impairment provision £115,000 *(2022: £36,000)* 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 £nil *(2022: £512,000)* 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

	2023 £000 Total	2022 £000 Total
Trade payables	**700**	1,445
Accruals	**428**	373
Other liabilities	**689**	529
Total financial liabilities, excluding borrowings classified as financial liabilities measured at amortised cost	**1,817**	2,347
Total relating to discontinued operation	**-**	835
Total relating to continuing operation	**1,817**	1,512
Deferred income	**186**	77
Total relating to discontinued operation	-	-
Total relating to continuing operation	**186**	77
Total trade and other payables	**2,003**	2,424

Trade payables denominated in currencies other than Sterling comprise £87,000 *(2022: £72,000)* 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

	2023 Total £000	2022 Total £000
Invoice financing	**-**	512
Lease liabilities	**120**	683
Loans	**279**	172
Deferred consideration	**3,480**	-
	3,879	1,367
Total relating to discontinued operation	**-**	1,059
Total relating to continuing operation	**3,879**	308

Non-Current Liabilities

Lease liabilities	**951**	2,517
Loans	**324**	683
Bearer bonds	**12,381**	2,270
Deferred consideration	**1,181**	-
	14,837	5,470
Total relating to discontinued operation	**-**	1,628
Total relating to continuing operation	**14,837**	3,842

The invoice financing arrangement in the prior year was secured upon the trade debtors to which the arrangement related, see note 8. Following the disposal of Works Manchester Limited in May 2022, the Group has no invoice financing facility or related security.

In July 2020 the Company created a bond facility which could issue up to a maximum of £50,000,000 nominal value. Any bonds issued are interest-free within the first three years of the facilities existence and thereafter pay 6% of the nominal value, annually in arrears, until the Company exercises its call option. The bonds are initially 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. During the year the Company has issued additional bonds with a total nominal value of £11,200,000, raising a net £9,520,000.

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 2023 the liability was £602,000 *(2022: £855,000).*

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.

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 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
Depreciation	(117)	-	-	(117)
Addition through subsidiary acquisition	186	-	-	186
Balance at 31 March 2023	**982**	**-**	**-**	**982**

LEASE LIABILITIES	Land and buildings £000	Plant and equipment £000	Motor Vehicles £000	Total £000
Balance at 1 April 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
Interest expense	62	-	-	62
Lease payments	(179)	-	-	(179)
Disposal of subsidiary	-	(23)	-	(23)
Addition through subsidiary acquisition	186	-	-	186
Balance at 31 March 2023	**1,071**	**-**	**-**	**1,071**

AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2023				2022			
	Land and buildings £000	**Plant and equipment £000**	**Motor Vehicles £000**	**Total £000**	Land and buildings £000	Plant and equipment £000	Motor Vehicles £000	Total £000
Continuing Operation								
Depreciation charge on right of use assets	**117**	**-**	**-**	**117**	122	3	6	131
Interest on lease liabilities	**62**	**-**	**-**	**62**	67	-	-	67
Expenses related to low value and short-term leases	**35**	**-**	**-**	**35**	18	-	-	18
	214	**-**	**-**	**214**	207	3	6	216
Discontinued Operation								
Depreciation charge on right of use assets	**-**	**-**	**-**	**-**	91	131	-	222
Interest on lease liabilities	**-**	**21**	**-**	**21**	25	136	-	161
Expenses related to low value and short-term leases	**-**	**-**	**-**	**-**	-	-	-	-
	-	**21**	**-**	**21**	116	267	-	383

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 2023	**1,071**	**1,348**	**99**	**99**	**198**	**531**	**421**
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

Lessor Accounting

The Group leases certain assets to customers with preloaded software. It is not practical to split the revenue from the lease of the physical asset and that of the preloaded software. The revenue associated with leased assets during the year was £217,000 *(2022: Nil)*.

	Year 1 £000	Year 2 £000	Year 3 £000	Year 4 £000	Year 5 £000
Future contracted lease income	147	104	66	11	3

12 SHARE CAPITAL

In thousands of shares	**Ordinary shares 2023**	Ordinary shares 2022
In issue at 1 April	**114,491**	114,491
Issued by the Company	**-**	-
Shares on the market at 31 March – fully paid	**114,491**	114,491

Allotted, called up and fully paid	**£000**	£000
114,490,828 *(2022: 114,490,828)* ordinary shares of £0.01 each	**1,145**	1,145
63 deferred shares of £0.10 each	**-**	-
	1,145	1,145

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 *(2022: £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 in FY22

	Initial recognition £000	Re-measurement to fair value FY22 £000	**Held for disposal FY22 £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**

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

Following the preparation of the completion accounts, the final net assets of Works Manchester Limited was £235,000 less than the agreed target net assets. The consideration has been adjusted accordingly with the difference recognised as a re-measurement to fair value in the Consolidated statement of comprehensive income in this financial year.

14 ACQUISITIONS

Acquisition of Vertical Plus Limited (Vertical Plus)

The entire issued share capital of Vertical Plus, an ecommerce software business, was acquired on 1 October 2022 for the total consideration of £3,512,000.

Vertical Plus met the criteria set out in our acquisition strategy (see www.grafenia.com/acquisition). It also complements our core offering and provides cross-selling opportunities across our Nettl network.

In the six-month period that Vertical Plus was owned by the Group, it contributed revenue of £1,011,000 and a profit before tax of £194,000. Had it been owned by the group for the full year, it would have contributed revenue of £1,867,000 and a profit before tax of £227,000, which included one-off costs.

Net assets of Vertical Plus on acquisition:

	Book Value £000	Adjustments £000	**Fair value £000**
Customer base	-	953	**953**
Technology	-	1,527	**1,527**
Property, plant and equipment	18	-	**18**
Cash and cash equivalents	1,078	-	**1,078**
Trade and other receivables	237	-	**237**
Trade and other payables	(161)	-	**(161)**
Deferred tax	-	(620)	**(620)**
Net assets acquired	1,172	1,860	**3,032**
Consideration			**3,512**
Goodwill			**480**

Consideration satisfied by:	
Cash	**2,320**
Deferred consideration payable	**921**
Contingent consideration payable	**271**
	3,512

An income approach was used to value contractual customer lists and relationships, using a discount factor of 8.6%. The useful life has been estimated at 10 years.

The technology was valued by using a relief from royalty approach, based on a royalty rate of 30% and using a discount factor of 8.6%. The useful life has been estimated at 3 years.

Trade and other receivables include gross contractual amounts due of £115,000 of which £9,000 was expected to be uncollectible at the date of acquisition.

Contingent consideration of up to £630,000 will be satisfied in cash dependent on Vertical Plus achieving certain earnings targets in each of the first three annual periods following acquisition, with £210,000 payable for each of those annual periods. The likelihood of achieving these targets has been estimated at between 75% - 80%. Should the targets not be achieved, the payout for that period would be nil. Of the total potential contingent consideration, £215,000 relates to remaining employees and, if paid, will be recognised in the consolidated statement of comprehensive income. The expected contingent consideration has been discounted to present value using a WACC of 8.6%.

Acquisition of Watermark Technologies Limited (Watermark)

The entire issued share capital of Watermark, a provider of document management software and systems, was acquired on 7 December 2022 for the total consideration of £3,134,000.

Watermark met Grafenia's acquisition criteria of providing vertical market software with revenues of a recurring nature. We believe it can be sold to SMEs operating in vertical markets beyond the financial, healthcare and insurance sectors.

In the period during the current financial year that Watermark was owned by the Group, it contributed revenue of £422,000 and a profit before tax of £179,000. Had it been owned by the group for the full year, it would have contributed revenue of £1,300,000 and a profit before tax of £495,000.

Net assets of Watermark on acquisition:

	Book Value £000	Adjustments £000	**Fair value £000**
Customer base	-	912	**912**
Technology	-	2,334	**2,334**
Cash and cash equivalents	812	-	**812**
Trade and other receivables	127	-	**127**
Trade and other payables	(239)	-	**(239)**
Deferred tax	-	(812)	**(812)**
Net assets acquired	700	2,434	**3,134**
Consideration			**3,134**
Goodwill			**-**

Consideration satisfied by:	
Cash	**2,213**
Deferred consideration payable	**921**
	3,134

An income approach was used to value contractual customer lists and relationships, using a discount factor of 8.6%. The useful life has been estimated at 10 years.

The technology was valued by using a relief from royalty approach, based on a royalty rate of 50% and using a discount factor of 8.6%. The useful life has been estimated at 6 years.

Trade and other receivables include gross contractual amounts due of £112,000 of which nil was expected to be uncollectible at the date of acquisition.

Acquisition of Care Management Systems Limited (Care Docs)

The entire issued share capital of Care Docs, a provider of care home management software and systems, was acquired on 18 January 2023 for the total consideration of £3,871,000.

Care Docs met Grafenia's acquisition criteria by being a software business and having a prominent position in its vertical market. Delivering solutions that generate revenues of a recurring nature.

In the period during the current financial year that Care Docs was owned by the Group, it contributed revenue of £544,000 and a profit before tax of £186,000. Had it been owned by the group for the full year, it would have contributed revenue of £2,751,000 and a profit before tax of £87,000, which included one-off costs.

Net assets of Care Docs on acquisition:

	Book Value £000	Adjustments £000	**Fair value £000**
Customer base	-	1,262	**1,262**
Technology	-	2,524	**2,524**
Property, plant and equipment	270	-	**270**
Cash and cash equivalents	698	-	**698**
Trade and other receivables	329	-	**329**
Trade and other payables	(283)	-	**(283)**
Deferred tax	-	(946)	**(946)**
Net assets acquired	1,014	2,840	**3,854**
Consideration			**3,871**
Goodwill			**17**

Consideration satisfied by:	
Cash	**3,387**
Deferred consideration payable	**484**
	3,871

An income approach was used to value contractual customer lists and relationships, using a discount factor of 8.6%. The useful life has been estimated at 10 years.

The technology was valued by using a relief from royalty approach, based on a royalty rate of 30% and using a discount factor of 8.6%. The useful life has been estimated at 4 years.

Trade and other receivables include gross contractual amounts due of £402,000 of which £123,000 was expected to be uncollectible at the date of acquisition.

Acquisition of Topfloor Systems Limited (Topfloor)

The entire issued share capital of Topfloor, a provider of property management software services, was acquired on 17 February 2023 for the total consideration of £5,164,000.

Topfloor further extended Grafenia's range of niche VMS companies that generate revenue of a recurring nature.

In the period during the current financial year that Topfloor was owned by the Group, it contributed revenue of £173,000 and a profit before tax of £94,000. Had it been owned by the group for the full year, it would have contributed revenue of £1,445,000 and a loss before tax of £703,000, which included one-off costs.

Net assets of Topfloor on acquisition:

	Book Value £000	Adjustments £000	**Fair value £000**
Customer base	-	1,390	**1,390**
Technology	-	4,407	**4,407**
Property, plant and equipment	10	-	**10**
Cash and cash equivalents	171	-	**171**
Trade and other receivables	31	-	**31**
Trade and other payables	(120)	-	**(120)**
Deferred tax	-	(725)	**(725)**
Net assets acquired	92	5,072	**5,164**
Consideration			**5,164**
Goodwill			**-**

Consideration satisfied by:	
Cash	**3,370**
Deferred consideration payable	**889**
Contingent consideration payable	**905**
	5,164

An income approach was used to value contractual customer lists and relationships, using a discount factor of 8.6%. The useful life has been estimated at 10 years.

The technology was valued by using a relief from royalty approach, based on a royalty rate of 50% and using a discount factor of 8.6%. The useful life has been estimated at 6 years.

Trade and other receivables include gross contractual amounts due of £963,000 of which £5,000 was expected to be uncollectible at the date of acquisition.

Contingent consideration of up to €1,400,000 will be satisfied in cash dependent on Topfloor achieving certain earnings targets each of the first three annual periods following acquisition. Based on management's estimation of future revenue growth of 10% per annum, expected contingent consideration is €1,248,000. Should revenue growth be 5% per annum, the contingent consideration payment would be €558,000. The expected contingent consideration has been discounted to present value using a WACC of 8.6%.

15 CONSIDERATION RECEIVABLE

	2023 £000	**2022 £000**
Receivable within one year	1,698	-
Receivable after one year	-	-
Total consideration receivable	1,698	-

Consideration is receivable from Rymack Sign Solutions Limited following the sale of Works Manchester Limited on 31st May 2022. The total outstanding consideration is £2,809,973. The carrying value of £1,698,000 is net of an impairment of £805,000 as a result of a missed instalment on 31st May 2023, see note 16 for further details.

16 POST BALANCE SHEET EVENTS

On 1 June 2023 Grafenia plc announced that a £514,223 instalment of deferred consideration from Rymack Sign Solutions Limited, a privately owned company trading as PFI Group ("PFI"), due on 31 May 2023 was not made. The Company remains in discussions with PFI to resolve the matter. The total outstanding consideration is £2,809,973. The carrying value in the financial statements is £1,698,000.

17 ANNUAL REPORT

The Annual Report and Notice of AGM will be sent to shareholders on or around 17 August 2023 and will be available on the Company's website www.grafenia.com from that date.