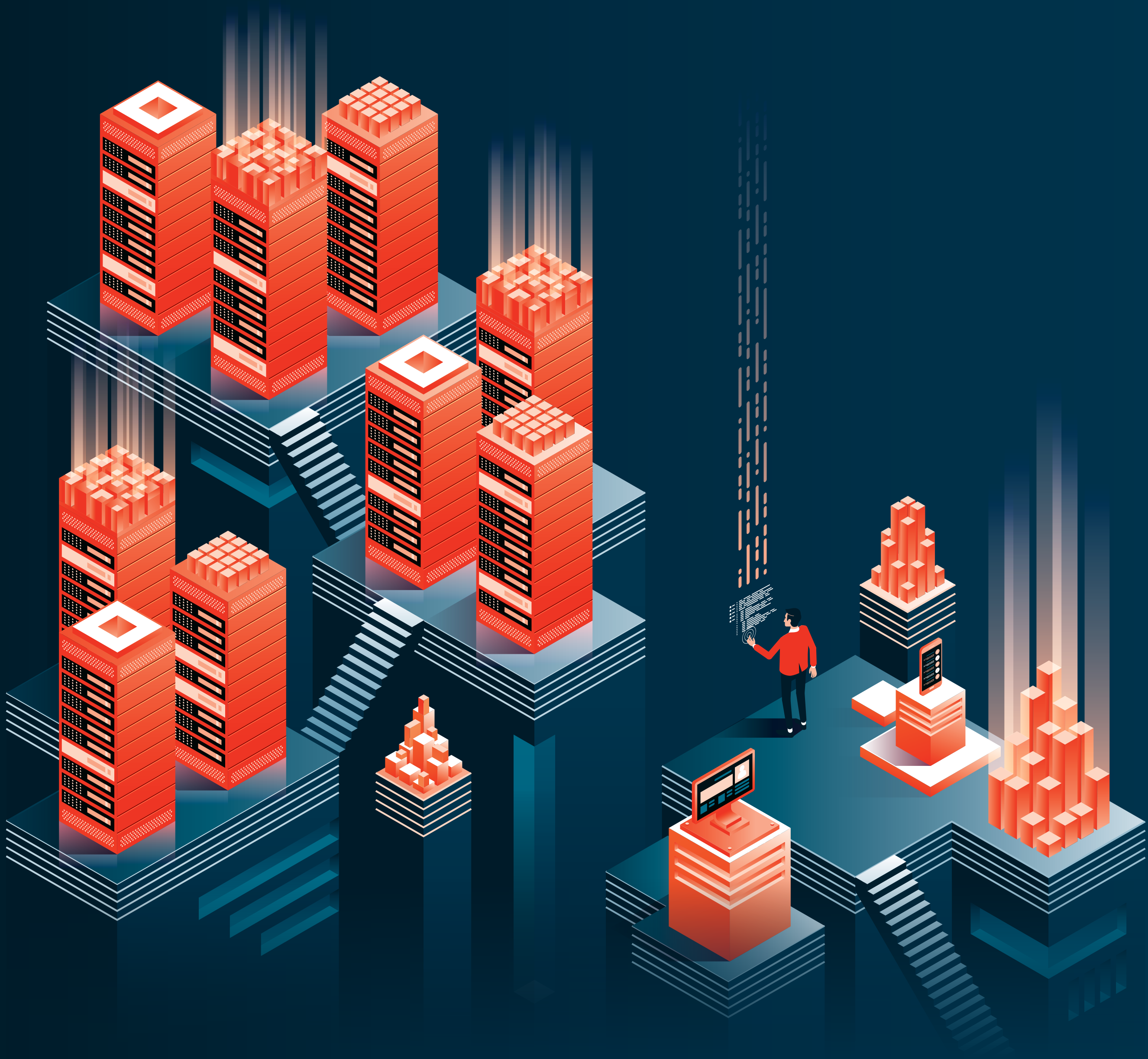
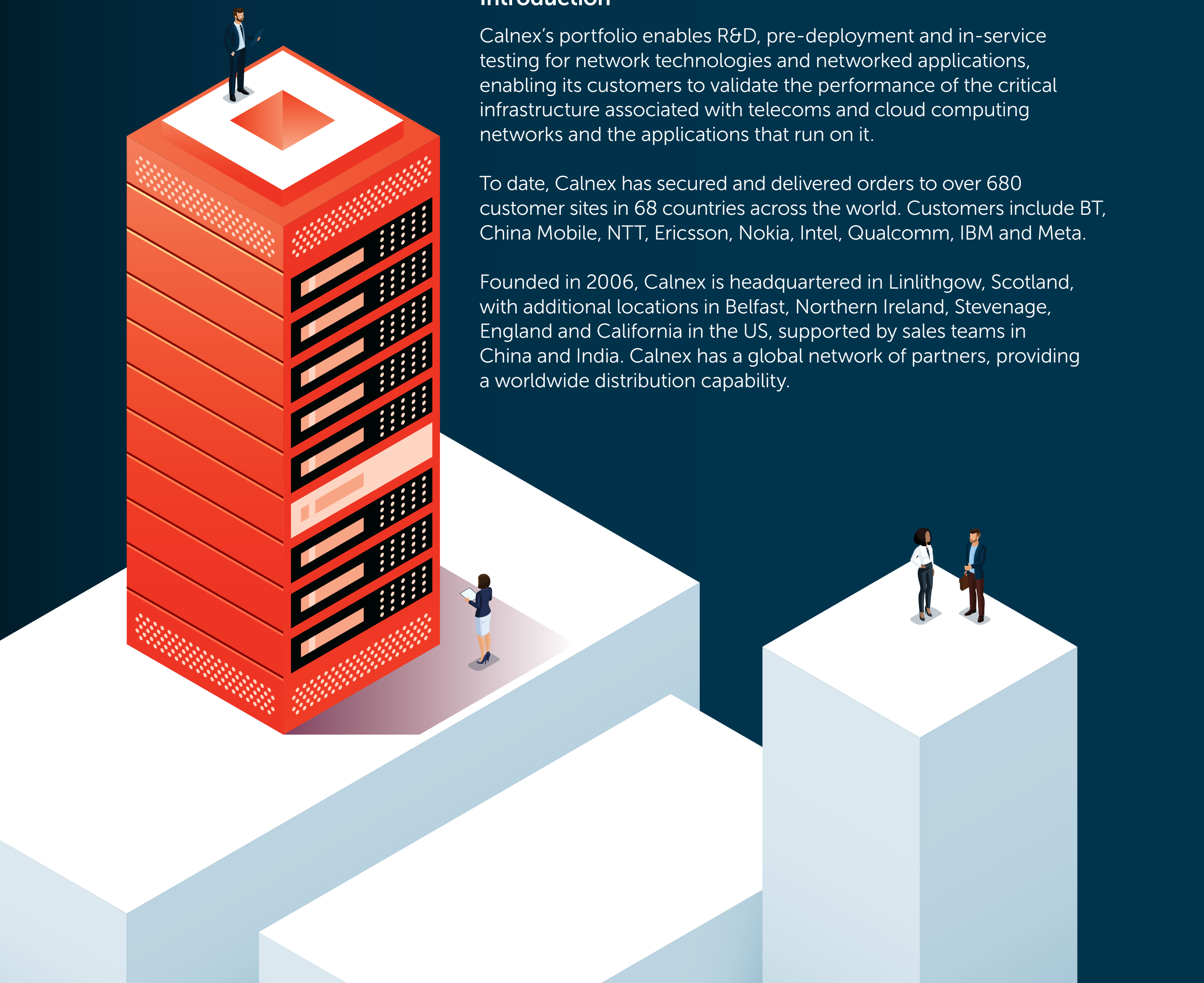
Calnex
Insight and Innovation



# Continued Progress

Annual Report and Accounts for the year ended 31 March 2022

# Calnex Solutions designs, produces and markets test and measurement instrumentation and solutions for the telecoms and cloud computing industries.



## Introduction

Calnex's portfolio enables R&D, pre-deployment and in-service testing for network technologies and networked applications, enabling its customers to validate the performance of the critical infrastructure associated with telecoms and cloud computing networks and the applications that run on it.

To date, Calnex has secured and delivered orders to over 680 customer sites in 68 countries across the world. Customers include BT, China Mobile, NTT, Ericsson, Nokia, Intel, Qualcomm, IBM and Meta.

Founded in 2006, Calnex is headquartered in Linlithgow, Scotland, with additional locations in Belfast, Northern Ireland, Stevenage, England and California in the US, supported by sales teams in China and India. Calnex has a global network of partners, providing a worldwide distribution capability.

## FY22 Highlights

### Revenue

22,046

+23%

### Adjusted profit before tax[1]

5,973

+18%

### Underlying EBITDA

6,351

+16%

### Closing cash and fixed term deposits[2]

15,357

+21%

1 Refer to note 32 for explanation of the alternative performance measures calculations.
2 The Company takes advantage of high interest deposit accounts for surplus cash balances not required for working capital. Under IAS 7 Statement of Cash Flows, cash held on long-term deposits (being deposits with maturity of greater than 95 days, and no more than twelve months) that cannot readily be converted into cash is classified as a fixed term investment.

### Company Overview



### Strategic Report



### Governance



### Financial Statements



### Company Information

# Highlights

| £000 | FY22 Audited | FY21 Audited | YOY % change |
|---|---|---|---|
| Revenue | **22,046** | 17,978 | 23% |
| Underlying EBITDA[1] | **6,351** | 5,496 | 16% |
| Adjusted profit before tax[1] | **5,973** | 5,068 | 18% |
| Adjusted basic EPS (pence)[1,2] | **5.19** | 5.83 | (11%) |
| Adjusted diluted EPS (pence)[1,2] | **5.00** | 5.21 | (4%) |
| Closing cash and fixed term deposits[3] | **15,357** | 12,668 | 21% |
| *Statutory measures*[4]: | | | |
| Profit before tax | **5,973** | 3,647 | 64% |
| Basic EPS (pence) | **5.19** | 4.68 | 11% |
| Diluted EPS (pence) | **5.00** | 4.18 | 20% |

1 Refer to note 32 for explanation of the alternative performance measures calculations.
2 Adjusted in comparative periods to exclude IPO costs and IPO related share based payments and the tax effect of these adjustments. As a result of the Company's admission to AIM occurring halfway through FY21, the basic and diluted weighted average number of shares in issue in the prior year were 73,762,000 and 82,575,000 respectively, compared with 87,500,000 total share capital and 90,150,000 diluted share capital post IPO.
3 The Company takes advantage of high interest deposit accounts for surplus cash balances not required for working capital. Under IAS 7 Statement of Cash Flows, cash held on long-term deposits (being deposits with maturity of greater than 95 days, and no more than twelve months) that cannot readily be converted into cash is classified as a fixed term investment.
4 A full reconciliation between Underlying EBITDA and adjusted profit before tax and the statutory measures is shown in the Financial Review on page 25 and in note 32.

## Financial highlights

- Revenue growth of 23% to £22.0m (FY21: £18.0m) as a result of robust trading performance, reflecting continued high demand for our range of test and measurement solutions.
- Growth in adjusted profit before tax of 18% to £6.0m (FY21: £5.1m)
- Closing cash position, including fixed term deposits, of £15.4m (31 March 2021: £12.7m).
- Proposed final dividend of 0.56 pence per share, making a total of 0.84 pence per share for FY22.

## Operational highlights

- Strong demand for test instrumentation, with new product launches in FY22 well received by customers.
- Core business supplemented by expansion into O-RAN testing for 5G standards and data centre engagements which continue to drive the requirement for performance testing.
- Increased staffing levels across business development, sales, R&D and support roles, to support growing customer demand, new product development and maximise exposure in new and existing territories.
- Maintained timely shipments to customers, whilst continuing to navigate the semiconductor component shortage.

## Post period end highlights

- Acquisition of iTrinegy Limited ("iTrinegy") successfully completed in April 2022, a leading developer of Software Defined Test Networks technology for the software application and digital transformation testing market, representing Calnex's move into an attractive new market.
- Awarded two 2022 Queen's Awards for Enterprise: Innovation and International Trade.

## Outlook

- The business continues to benefit from the evolutionary trends affecting the telecoms sector, notably in 5G and cloud computing. Demand for test equipment therefore remains strong and Calnex begins FY23 with a record order book.
- The Board remains aware of potential effects of the global semiconductor component shortage on the business, although the Group has successfully navigated the challenges to date.
- As a result of the continued high demand for Calnex's products and services, and the Group's record order book, the Board is confident of achieving another successful year of growth in FY23.

# Market overview

Calnex supplies its technology to two growing markets: the telecoms industry and the cloud computing industry.

**Telecoms industry**
The telecoms industry is a highly competitive environment, requiring innovative products, technologies and services to support investment in new digital infrastructure.

The industry comprises equipment vendors, such as Nokia, Ericsson, Cisco and Huawei, which develop hardware and software systems for deployment by network operators, such as BT, China Mobile and NTT, within their networks. Component manufacturers, such as Intel, Broadcom and Qualcomm, sell components and sub-assemblies to equipment vendors, which are then built into their products.

**Cloud computing**
Hyperscale/large enterprise entities, such as Meta (previously Facebook), Amazon, Google and Dell that build and create their own data centres, networks and/or equipment also create an opportunity for Calnex. These implementations utilise similar technology to that used in the telecoms industry, often conforming to the same international standards originally developed for telecoms network deployment. This group of customers represents an emerging opportunity to expand the Group's addressable market. All of these market participants in telecoms and cloud computing are either actual or potential end customers of Calnex.

The pervasive availability of Data Centre access is resulting in many enterprise companies moving their Applications and Services to be hosted and operated in cloud computing environments rather than in-house computing equipment. The need to verify performance of Applications in the presence of real world network effects where their target users demand high quality user experience is a potential market opportunity for Calnex. The acquisition of iTrinegy to add the NE-ONE to our Product Portfolio provides the Group the opportunity to develop an attractive new market.

**Why is testing needed?**
Global telecoms networks are extremely diverse and when changes are introduced it is vital that the new network conditions can be tested effectively both prior to and following technical deployment. The test and measurement sector is an integral part of developing, building and maintaining all telecom and data networks, whether they are deployments by telecoms operators or within data centres. In both deployment scenarios, the role of test equipment is the same, to prove performance, which enables market participants to develop, manufacture, deploy and maintain telecoms equipment and networks.

**Test and measurement market segmentation**
Testing and measurement is typically carried out at each stage of the development cycle and it is therefore crucial that this can be performed reliably to prove conformance to the standards required by market participants and regulators.

Calnex is focused on the ***Design Validation, Conformance Test and Maintenance Test phases of the development life-cycle***, which are high value niches, due to their position as critical points in the development life-cycle. All these stages in the development cycle require significant technical capability using high value-add test equipment and the high barriers to entry for new participants means there is limited competition to Calnex at present.

These markets all require test solutions that provide deep insight to performance where the quality of result and information obtained is critical. Whilst the cost of capital investment in test equipment is important to market participants, ensuring that engineering elapsed time to test can be minimised is a key priority. Long testing phases delay the release of new products, which reduces new product revenue to equipment vendors. Network operators are also impacted by long resolution times which limit network capability.

In the test phases targeted by Calnex, customers need to have confidence that the test equipment they purchase is reliable and will enable them to carry out the necessary testing efficiently. Calnex has consistently delivered such products to its customers over time.

**A growing opportunity**
The global market for telecoms test and measurement equipment in 2020 for mobile networks alone was estimated by Frost & Sullivan[5] to be around US$1.3 billion and is forecast to exceed US$2 billion by 2024, expanding

at a CAGR of 11.5 per cent. Frost & Sullivan[6] separately estimated the global high speed Ethernet test equipment market to be around US$1.7 billion in 2022, expanding at a CAGR of 6.2%.

The expansion of the scale and numbers of data centres continues. A recent report suggested there are already over 8,000 data centres across the world, with the US hosting the largest share. Between them, the US, UK, Germany and China host around 50% of all data centres[7]. The initial opportunity for Calnex from companies operating data centres was created with their utilisation of very high speed interfaces. Calnex identified that data centres would need to test and measure the time synchronisation to the servers within these data centres. The build-out of these data centres remains a dynamic environment where new services delivered by data centres, such as network hosting, are anticipated to generate further requirements for test solutions that may produce additional opportunities for Calnex in the future.

**What are telecommunications and network standards?**
Standards and recommendations within the telecoms testing sector are published documents that establish mandatory or recommended specifications and procedures designed to ensure the interoperability of equipment from multiple equipment vendors, set the minimum performance of equipment and define the core needs of networks.

Standards are critically important within the telecoms industry as they act as the key driver for how networks will be developed, establishing the performance and testing requirements for infrastructure, equipment, application and service product development. Without standards, network equipment interoperability and the provision of interconnected services would not be possible.

While there are a number of well-established bodies that have been developing standards for many years, (like the International Telecommunications Union, 'ITU-T'), a number of new forums are gaining market traction. O-RAN Alliance (Open Radio Access Network Alliance, https://www.o-ran.org/), which is focused on the promotion of increased participation in the development of equipment for deployment in the network supporting the mobile radio transmission equipment in mobile networks, and the OCP (Open Compute Project, https://www.opencompute.org/), which has a mission to "apply the benefits of open source and open collaboration to hardware and rapidly increase the pace of innovations in, near and around data centres" (https://www.opencompute.org/about). The development of recommendations from both of these forums is increasing the addressable market for test equipment as more companies and more groups within established companies look to develop and promote equipment conforming to these recommendations.

Ensuring new equipment and services comply with new standards is vital to market participants and is a key driver of the test and measurement sector.

Calnex, since inception, has developed and maintained a close involvement with standards bodies to ensure it has early insight as to industry developments to keep the Group's R&D programmes well informed.

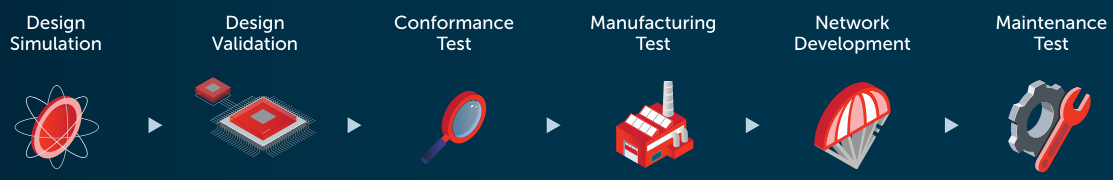
Calnex has a highly sophisticated and differentiated product offering and an advanced knowledge of future market requirements.

**Our differentiation**
The Group will continue to track developments in technology and standards in markets where it already benefits from a strong market position with limited direct competition. Calnex has a highly sophisticated and differentiated product offering and an advanced knowledge of future market requirements gained from its close relationships with end customers, market participants and international standards bodies, which together act as a significant barrier to entry to potential competitors.

Calnex's products are often differentiated by their high specifications and the complexity of the product platforms. The Group is highly focused on R&D, IP and product development to ensure its products remain at the forefront of their markets. By delivering the optimal solution at the right time, market leading products with high end functionality can achieve healthy margins.

Calnex continues to work closely with customers and the key regulatory bodies to help define the industry changes that Calnex's products will be required to test and measure. With its established industry position, Calnex is well positioned to capitalise on opportunities driven by changing customer demand and regulatory standards.

## New product development cycle




5 Frost & Sullivan, Global 5G Testing Equipment and Solutions Market, Forecast to 2024, 2019
6 Frost & Sullivan, Global Gigabit Ethernet Test Equipment Market, Forecast to 2022, 2018
7 Data Centres Around the World: A Quick Look", United States International Trade Commission, May 2021

Our Products

# Test solutions

Calnex provides sophisticated hardware and software test and measurement solutions to its customers across three main application ranges:

## Lab Synchronisation

Calnex's Lab Synchronisation test capabilities are delivered by the Paragon product range, used to test the synchronisation capabilities of telecoms equipment within the development phase.

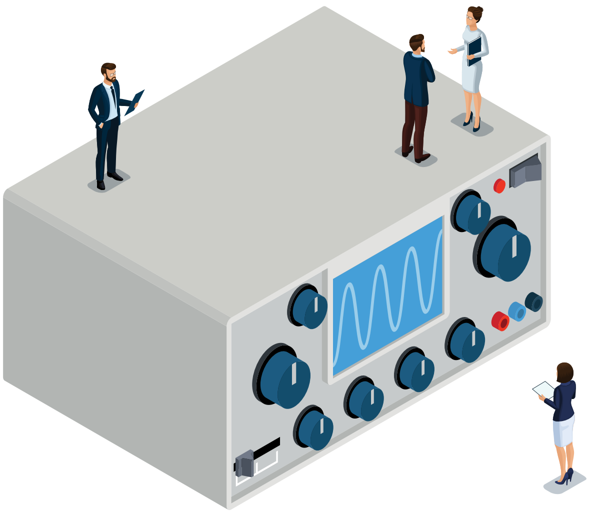
## Network Synchronisation

Calnex's Sentinel and Sentry product ranges provide the ability to test network synchronisation once telecoms equipment has been deployed, both in the telecom networks and within data centres installations.

## Cloud & IT

Calnex's SNE and Attero Network Emulation platforms are used to replicate network behaviour in real-world conditions, enabling the infrastructure testing of Ethernet, cloud and data centre technology & networks.

Calnex's acquisition of iTrinegy added the NE-ONE product to the portfolio. This product will provide Network Emulation testing of software applications and digital transformation testing that utilise the telecoms and cloud computing infrastructure.



## NE-ONE

Positioned to provide comprehensive Network Emulation for testing of software applications and digital transformation testing.

Hardware platform available to host software product.

Software can be hosted in VMware and AWS environments today, with Azure support due for release in FY23.

## Paragon-neo

First to very high accuracy for multiple rate from 100M-to-400G, measuring to sub-billionth of second accuracy.

Positioned as the platform to support all future rates including greater than 400G.

## Sentinel

First to measure time from the air signal.

Best-in-class at maintaining high-accuracy time in the field.

Designed to meet the testing needs of new 5G networks.

## SNE

Positioned to provide comprehensive Network Emulation for Infrastructure testing.

Supports multi-port/multi-user support up to 100G interfaces.

Market leader in port count, multi-user and flexibility.

Software platform will deliver cloud-services based solution.

## Attero-100G

First to offer 100G line rate impairment with 0.25 second delay – the equivalent delay of over 50,000 km of fibre.

Objective is to continue targeting customers developing equipment designed to address high-speed and high-end performance applications to complement SNE's strengths.

## Paragon-X

First to offer multi-rate to 10G, physical layer and packet timing, and implementation of full system end-to-end emulation for high accuracy time testing.

Future opportunities in emerging applications out-with telecoms.

## Sentry

Designed to meet the testing needs of data centres deploying accurate time to all servers.

Provides monitoring of accurate time to all the servers located within a data centre.

High degree of leverage in technology between Sentinel & Sentry, each product structured and optimised to align with the specific form, fit and function needs of its target application.

# Our unique position

Calnex operates a lean business model, with a global network of regional distributors and channel partners. Calnex has a highly sophisticated and differentiated product offering, with an advanced knowledge of future market requirements

## Market-leading solutions

Calnex's solutions for network synchronisation and emulation enable its customers to validate the performance of the critical infrastructure associated with telecoms networks. This has allowed the Group to establish a position at the forefront of the global test and measurement industry.

Calnex's products are differentiated through their high specifications and the complexity of the product platforms.

## Longstanding customer partnerships

The longevity and depth of Calnex's customer relationships demonstrate its reputation in the industry and trusted partner status with global reach.

## Clear purpose and strategy

Calnex's three-pronged growth strategy provides motivation for staff and attracts investors. The Group's strategy capitalises on the drivers in the telecoms market:

1. Continued product innovation to capitalise on the build out of the mobile network and growth of 5G.
2. Expansion within the cloud computing sector and other Ethernet market niches.
3. Target select acquisition and strategic partnership opportunities to add to product portfolio.

## Engineering expertise

Calnex has developed a team of experts highly focused on R&D, IP and product development to ensure its products remain at the forefront of their markets.

## First to market

Calnex holds close relationships with customers, regulatory bodies and leading market participants, meaning it consistently brings new technologies to market first. Together, these also act as a significant barrier to entry to potential competitors.

## Industry know how

Calnex is a young business with an experienced senior leadership team.

The Group's ability to offer a wide range of solutions is attractive to customers and provides a point of differentiation.

Calnex's position and reputation within the industry means it is well placed to make further acquisitions.

## Operational Model

**These qualities are supported by a lean business model, with global distribution channels in place and manufacturing outsourced to a high-quality and long-standing local partner:**

### Distribution channels

Global reach through network of regional resellers and distributors.

Long-term relationship with Spirent Communications plc, across a number of global regions including US, China and India.

Calnex maintains direct contact and ongoing relationships with underlying customers, due to highly technical sales process.

### Manufacturing capability

Manufacturing outsourced to Kelvinside Electronics since 2007.

Kelvinside Electronics operates from a custom built 40,000 sq ft facility located in Kilsyth, Scotland.

Enhancements to short and medium term sales forecasting information along with close working relationships enable optimisation and management of global supply-chain procurement and production schedules.

### Operational excellence

Large company structure, with sophisticated R&D processes.

Successful expansion through product and technology acquisitions.

Proven ability to integrate bolt on acquisitions who benefit from access to global sales channel and increased R&D structure.

The telecoms industry is a rapidly evolving environment – the migration of mobile to 5G and the emergence of the IoT for example, are driving forces in the continuous development of telecom networks around the world. This requires innovative products and technologies to support the investment in new digital infrastructure.

This then drives growth in the need for test and measurement instrumentation and solutions like those offered by Calnex.

**Maturity of the operational model combined with agile methodology provides scalability, adaptability and creates value for Calnex's customers, colleagues, shareholders and the markets in which we operate.**

## Creating Value

### Our customers

The test and measurement sector is an integral part of the communications networks in both the telecoms industry and increasingly in the cloud computing industry; as it is typically required at each stage of the development cycle and it enables market participants to develop, manufacture, deploy and maintain the telecom equipment and networks. Calnex helps to ensure test and measurement within these industries can be carried out reliably to prove conformance to the standards required by market participants and regulators.

### Our market

Calnex continues to work closely with customers and the key regulatory bodies to track and monitor the industry changes that Calnex's products will be required to test and measure.

### Our colleagues

Calnex strives to be an employer that people enjoy working for. We provide a supportive and productive work environment and help our employees in taking care of their physical and mental wellbeing, with a focus on each staff member's career path.

### Our shareholders

Calnex's focus is on delivering returns for its shareholders. Strong financials provide firepower for growth across the expanding markets and support dividend payments. Calnex has a clear strategy within its target markets and is profitable and cash generative with a strong revenue profile to help support its objectives.

# Our three-pronged growth strategy

Calnex has a three-pronged growth strategy to capitalise on the structural growth drivers in the telecoms market:

### Continued product innovation to capitalise on build out of mobile network and growth of 5G

- Follow the market demands for higher transmission rates and track new standards to strengthen our product offering.

### Key developments in FY22

- Followed-through with further enhancements in Paragon-Neo to support the new interface formats for the very high speed interfaces.
- The O-RAN Alliance works on the evolution of Open RAN (Radio Access Network) standards around the world. Continued to track developments and enhance capability in products to support evaluation of O-RAN recommendations.

See Strategic Report on pages 15 and 16.

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### Expansion within the cloud computing sector and other Ethernet market niches

- Target growth applications where strong value can be gained from the deployment of Calnex's products.

### Key developments in FY22

- Enhanced the SNE platform to support evaluation of O-RAN recommendations as well as support for other targeted applications.
- Monitored the market for the need for virtual version of the product. The Group is well positioned to release a virtual version of the SNE when need emerges.
- Developed the Sentry platform to align with the needs of data centre operators to manage time synchronisation.

See Strategic Report on page 16.

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### Target select acquisition and strategic partnership opportunities to add to product portfolio

- Selective acquisition and strategic partnership activity, where complementary products or technologies can be acquired to enhance Calnex's existing portfolio in related or adjacent growth.

### Key developments in FY22

- Acquisition of iTrinegy in April 2022. FY23 will see the integration and realisation of the potential of the iTrinegy acquisition.
- Expanded ability to search and evaluate target companies with appointment of Strategic Partnership manager.

See Strategic Report on page 16.

**"We have made good progress in executing on our strategy, paving the way for accelerated future growth."**

**Tommy Cook**
CEO

# Overview

**"The Group delivered record levels of trading in both halves of the year, successfully fulfilling all scheduled orders to finish the year strongly."**

**George Elliott**
Chairman of the Board

### Overview

I am pleased to report on another year of strategic progress and increased momentum at Calnex. We have experienced a record increase in demand for our range of test and measurement solutions and continued to evolve as a listed business. These successes are testament to the strength of our product offering and the long-standing customer relationships the Group has developed across our key markets. The strong performance, coupled with the Group's focus on innovation and investment in people, has delivered another step forward for Calnex which, alongside a record order book as we enter FY23, points to the Group's ability to deliver significant, sustainable growth over the coming years.

### Results

The Group delivered record levels of trading in both halves of the year, successfully fulfilling all scheduled orders to finish the year strongly. This was aided by the introduction of new regulation and standards for the telecoms industry, and the growth in cloud computing, which continued to drive demand for Calnex's products. The management team successfully navigated the challenges of the semiconductor supply chain, reducing its impact on our ability to manufacture and ship products.

The Group delivered revenue growth in FY22 of 23% to £22.0m (FY21: £18.0m) and adjusted profit before tax growth of 18% to £6.0m (FY21: £5.1m) (refer to note 32 for calculation of alternative performance measures), whilst ending the year with a closing cash figure, including fixed term deposits, of £15.4m (FY21: £12.7m).

### Acquisition

To realise our ambition to be the leading provider of test and measurement solutions for the global telecommunications sector, part of our strategy includes growth through acquisitions. With a proven track record of identifying and targeting attractive market niches, alongside the successful IPO in October 2020 which provided the Group with the funds to invest, Calnex is well positioned to capitalise on opportunities to acquire new products or technologies which could be enhanced by applying the Company's technical skills, operational capabilities and distribution channels.

We were therefore delighted to announce in April 2022 the acquisition of iTrinegy, a developer of Software Defined Test Networks (SDTN) technology for the software application and digital transformation testing market. This is our first acquisition since IPO and it is expected that iTrinegy will benefit from Calnex's track record in building, supporting and growing a reseller network, particularly into the US, to accelerate sales.

**ESG**

The attitude of Calnex towards caring for its people and the communities around it has always been a key feature of the business. As part of our journey to continually improve our performance, in a traditionally male dominated industry, we are focused on ensuring a diverse workforce with a good level of female representation on both our Board and executive management team. The Group has successfully utilised its license to hire from overseas this year as part of its recruitment campaign. Bringing people from other countries from different cultures with different life experiences enhances the Group through the blending of varied career experiences into its innovative team.

The environmental impact of our operations are also important considerations. The Board oversees a policy of active awareness of how best to incorporate effective environmental goals into the Group's strategic decisions, operations and supply chain. The Group has set-up an employee-led Social Responsibility team who have a dedicated fund assigned to allow them to provide meaningful support to social and environmental charities and events that are important to its employees. The Board's commitment to assign 1% of profits to this initiative underlines the importance we see in supporting our staff in making meaningful impacts from our business success to projects that our staff care about. As a Board, we are also committed to high standards of corporate governance and oversight. The approach we take is set out in detail in the Principal Risks and Uncertainties, s172 and Corporate Governance sections of this report.

While we have no operations or customers in Russia, the Ukraine or Belarus, we are shocked by the human tragedy that is unfolding and cognisant of the risks it poses to all businesses in the way of increased inflationary pressures.

We are confident that we have robust financial management measures in place to protect our operating margins as we progress through FY23.

**People**

The progress we have made since the IPO is a tribute to Calnex's employees' expertise and knowledge and this has never been more true than during this year. Their energy and commitment to providing leading test and measurement solutions throughout the world, during the pandemic, and the challenging wider macroeconomic environment, has not wavered and I would like to thank all our staff across the globe for their hard work. As we continue to trade well, despite the challenging environment, a key focus for the business remains on ensuring the wellbeing of our employees and providing them with the support required to succeed in their roles at Calnex.

**Looking ahead**

Calnex has continued to progress against its strategy in FY22. We see the increased demand for our range of test and measurement solutions across all key geographies as a clear demonstration that the business has built the right platform to succeed, even in a challenging macroeconomic environment.

We are proud to have many of the world's leading players in the continually evolving telecoms market as customers. With a proven track record in innovation, an emerging exciting opportunity within cloud computing, continued underlying growth drivers in the telecoms market, an enlarged product offering and a strong order book as we head into FY23, I am confident in Calnex's ability to continue to deliver on its growth strategy and create value for all shareholders.

**George Elliott**
Chairman of the Board
23 May 2022

# Continued progress

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**The Group's performance during the year has been enhanced by the introduction of industry regulation such as the new O-RAN standards that continue to drive the requirement for performance testing, whilst the transition to 5G and growth in cloud computing continue to drive demand from both new and existing customers, across each of our customer categories."**

**Tommy Cook**
Chief Executive Officer

I am pleased to report on another strong set of results for the year ended 31 March 2022. It has been a positive period for the Group in which we have made strong strategic progress as well as experiencing continued high demand for our range of test and measurement solutions, delivering results considerably ahead of our initial expectations for the year.

As I look across the business, it is reassuring to see growth across all our product lines – with no one area driving our performance, but rather a consistent uplift in all areas, which combined, have contributed to the continued successful evolution of Calnex as a public company.

We are pleased to be reporting such a strong performance despite also having to deal with the global components' shortage. Working alongside our contract manufacturer, Kelvinside Electronics, our team have successfully mitigated the shortages to date and shipped all scheduled orders as planned. We continue to monitor the situation closely, implementing new purchasing processes to ensure we can continue to manage these challenges, and I would like to thank both the Calnex and Kelvinside teams for their skill in successfully navigating this dynamic situation thus far. The global component shortage looks likely to continue for much of FY23 and we will continue to work closely with Kelvinside to navigate our way through the challenges until the situation eases.

The Group's performance during the year has been enhanced by the introduction of industry regulation such as the new O-RAN standards that continue to drive the requirement for performance testing, whilst the transition to 5G and growth in cloud computing continue to drive demand from both new and existing customers, across each of our customer categories. We are fortunate to operate in a sector not severely impacted by the consequences of dealing with the COVID-19 pandemic, which, if anything, has highlighted the need for robust, fast broadband and resilient telecoms networks and infrastructure.

Calnex's record order book as we head into FY23 provides confidence in our ability to deliver significant, sustainable growth over the coming years. Whilst bringing only modest increases to revenue and profit in FY23, the acquisition of iTrinegy is anticipated to be an important contributor to Calnex profit in future years, further underpinning the sense of Group wide optimism moving forwards.

**Customer metrics**

We were pleased to have seen consistency in our customer metrics in the year. The number of customers who ordered from us this year increased by 34 to 233 (FY21: 199 customers), our top 10 customers accounted for 53% of orders (FY21: 46%), 79% of our orders in the year were from repeat customers (FY21 80%) and alongside growth in our telecoms orders we maintained the proportion of orders coming from non-telecoms customers at 23% (FY21: 23%). Our geographic spread of orders across the regions show Americas and ROW each receiving 35% of orders and North Asia receiving 30%, over a 3 year average basis.

**Transition to 5G and growth in Cloud Computing**

The transition to 5G and the growth in cloud computing continue to drive demand for test instrumentation, from both new and existing customers, across each of the Group's customer categories. The requirement for design validation, and conformance and maintenance testing is more prevalent than ever as new standards and technology movements drive the need for network operators, equipment and component vendors plus hyperscale/enterprise customers to validate equipment and network performance.

In the build out of the mobile network, referred to as "5G", the interest in vendors producing equipment conforming to the O-RAN recommendations has grown significantly over the period, opening opportunities for Calnex to engage with new customers. The growth in data centres continues with a recent report suggesting there are already over 8,000 data centres across the world, with the US hosting the largest share. Along with UK, Germany and China, these four countries host around 50% of all Data Centres[7]. Such evolutionary trends have the potential to bring significant change to the telecoms sector and underpin the Group's confidence in making further progress during the current financial year and beyond.

7 Data Centres Around the World: A Quick Look", United States International Trade Commission, May 2021

**Product innovation to support the transition to 5G and growth in cloud computing**
Continued product innovation has allowed the Group to execute on its growth strategy to capitalise on the transition to 5G and expand into adjacent markets, such as cloud computing and the data centre market.

**Lab Synchronisation (Paragon-Neo)**
The introduction of support for very high-speed interfaces (up to 400Gb/s) as well as the various interface formats used in very high-speed interfaces (e.g. PAM4) has had the expected positive impact on customer engagement and sales. The other dynamic that resulted in growth in this product family was the demand from companies looking to build equipment that conforms to the recommendations produced by the O-RAN Alliance. This demand came from both established customers looking to verify existing equipment or develop new equipment that will be sold as compliant to the O-RAN recommendations, and new customers seeking to establish a presence in the market.

**Network Synchronisation (Sentinel & Sentry)**
The release in June 2021 of the new 5G OTA (Over-the-air) capability in Sentinel, Calnex's Field Sync solution, has resulted in significant interest from potential customers. This second-generation OTA implementation not only addresses 3G, 4G and the emerging 5G signal formats, but also offers an enhancement feature set in all formats to expand the insight it provides to operation.

In addition, the implementation of time distribution across data centres is creating a secondary market for testing of time distribution accuracy inside data centres. Sales to hyperscale customers who are investing in their data centre operations are progressing well, and Calnex has already received a considerable order for delivery in FY23, which we will look to replicate across other hyperscale customers in the future. To align the product portfolio with this emerging opportunity, a new version of our Network Synchronisation Product, Sentry, will be released early in FY23. The product will heavily leverage the technology in Sentinel but with a form, fit and function optimised for the data centre environment. This new format will enhance the ability to engage with potential data centre customers by strengthening its usability in the data centre environment.

Growth in the primary market and increasing penetration of the emerging market has enabled Calnex to perform ahead of the Board's initial expectations for FY22, with a positive outlook moving forward.

**Cloud & IT, Infrastructure Verification (SNE & Attero)**
Calnex's Network Emulation products, which target customers developing Infrastructure products (e.g. Ethernet switches, routers, SD-WAN equipment), continued to make good progress this year. O-RAN, mentioned earlier in connection with the Lab Sync products, has also impacted positively on this product line. The O-RAN Alliance provides a number of recommendations for equipment deployed in the RAN network. Synchronisation is only one element of the functionality specified. Calnex's SNE and Attero products are being utilised to verify performance to other aspects of these recommendations.

This year, the Group expanded its portfolio by releasing a new Virtual SNE (network emulation) product, targeting engineering teams developing infrastructure products for deployment in networks hosted in cloud computing environments. While demand is at early stage, the value is in the strategic positioning of the portfolio to track this trend as and when it grows momentum.

**Cloud & IT, Applications Verification (iTrinegy acquisition)**
In April 2022, we completed the acquisition of iTrinegy Limited, a leading developer of Software Defined Test Networks technology for the software application and digital transformation testing market. NE-ONE hardware and software-based Network Emulation platforms provide organisations, primarily across the technology, financial, gaming and military/government sectors, with the ability to accurately recreate complex, real-world network test environments in which to analyse and verify the performance of applications, before deployment.

The acquisition of the NE-ONE Network Emulation platform enhances Calnex's positioning as both the leading Synchronisation Verification test vendor, and the only company with a broad range of Network Emulation tools that provide an unparalleled range of Network Emulation solutions for a wide range of customers and customer needs. The acquisition of iTrinegy is consistent with our strategy to address a new customer base and move to open a new market. iTrinegy is being acquired on a debt free, cash free basis and we plan to invest for growth in the business. The focus to date has been to integrate iTrinegy's team into Calnex and provide support to the new team members, whilst ensuring that iTrinegy is aligned with Calnex's growth aspirations.

**Financial performance**

Calnex experienced another year of strong trading. The 23% growth in revenue to £22.0m (FY21: £18.0m) is a result of the continued strong demand for telecoms testing equipment across the Group's core markets. Revenues from the Americas region increased 23%, whilst the Rest of the World experienced a 31% uplift. North Asia revenues grew by 14% after a flat first half due in part to the ongoing geopolitical tensions between the US and China. Given the overall growth in revenues, Americas account for 32% of total revenues (FY21: 32%), ROW 37% (FY21: 35%) and North Asia 31% (FY21: 33%).

The Group's adjusted profit before tax grew by 18% to £6.0m (FY21: £5.1m), ahead of the Board's initial expectations, reflecting the uplift in revenues and the Group's on-going investment in the business. This year saw the Group invest in additional business development resources, placing more sales personnel in regions that are experiencing strong growth, such as the US and India, as well as adding to the operational teams to support growth. The Group ended the year with a healthy closing cash position, including fixed term deposits, of £15.4m (31 March 2021: £12.7m).

**Operations**

We have an ethos of continuous improvement, actively seeking to enhance our performance, improve efficiencies and deliver at scale. In recent years, we went through a significant evolution of our ISO 9001 certified Quality Management System to utilise a more systematic auditing approach to promote continuous improvement. Last year, these changes were 'institutionalised' into the organisation to make them a regular part of the way we manage, assess and enhance the way we operate across the business. As the organisation grows, we plan to regularly assess our structure to review the roles and responsibility of each staff member to identify where growth has resulted in the need for new full-time roles that previously were part of someone's responsibility. The management team hold quarterly meetings to discuss organisational effectiveness to identify where growth is leading to change, and ensure these changes are implemented in order to maintain performance.

> **"We continue to invest in talent globally, to support and enhance the fantastic work of our team, whose commitment continues to drive the business forward."**
>
> **Tommy Cook**
> Chief Executive Officer

**People**

We continue to invest in talent globally, to support and enhance the fantastic work of our team, whose commitment continues to drive the business forward. Such investment in talent, particularly within the R&D division, is part of the Group's on-going growth strategy and will continue to be a big part of our investment over the coming period. We have hired 19 new staff over the last 12 months, bringing our total headcount to 123 at the year end, which has subsequently increased to 136 at the date of this report, following the acquisition of iTrinegy. The recruitment market remains challenging with many companies seeking to hire; however, at present Calnex is able to attract talented people. The Group is also utilising its overseas sponsor license to hire from outside of the UK to strengthen and diversify its teams.

In August 2021, we recruited a new Vice President of Operations who is tasked with advancing Calnex's internal order fulfilment capabilities. These activities will enhance processes and procedures to ensure the Group's manufacturing capacity continues to evolve in a sustainable way. The ongoing challenges created by component shortages have reinforced the value of the new approaches being put in place to increase our resilience to handle growth, month-to-month variation in specific product demand and handle the challenges of sourcing components in a dynamic environment. Such investment is aligned with our growth strategy, and we expect this to continue in the coming period as we scale the business.

We have also recently engaged an experienced executive with significant sector experience to join our management team to assist with our strategic development, and we expect this appointment will enable us to accelerate our investigations into possible additional acquisition and strategic partnership opportunities.

Our staff have returned to the office under a hybrid model and our experiences from the enforced lockdowns have allowed us to enhance our working environment for all. Whilst travel costs associated with customer site visits have remained low during the year, the sales team are slowly starting to hold face-to-face customer interaction again. We expect the volume of travel to ramp up through the year as each region/ country opens up post COVID restrictions.

**Suppliers & partners**

Calnex has two key partnerships, namely with our contract manufacturer, Kelvinside Electronics, and with Spirent Communications plc, providing a sales channel for a significant proportion of our sales. In both cases, the relationships are long established (with Kelvinside since 2007 and Spirent since 2013) and mutually beneficial. We continue to work collaboratively with our partners to identify areas for improvement, understanding there are always opportunities to execute better to the mutual benefit of both parties. For example, the most recent focus in Kelvinside/Calnex management discussions has been to enhance the way we forecast build quantities and enhance inventory management approaches to increase robustness against potential changes in component lead times.

**Community & environment**

For a number of years, Calnex has had an active Social Responsibility program, assigning a quarterly budget to charitable donations, organising fund raising events and time off work for employees to participate in community projects. The Board have agreed to increase the funding in FY23 onwards, to strengthen and solidify our commitment to social, charitable and environment projects that are important to our employees. "Make a meaningful contribution" is at the core of the ethos. The Board has committed to assigning to the fund the equivalent of 1% of the profits we generate, which will be at the disposal of an employee-led group. "Meaningful" can mean matched funding to funds raised by employees and/or employees' families to make more significant donations to charity or environmental projects to which our employees have a connection. 1% of Calnex profits will not change the world, but it is a substantial amount that can be used to make a meaningful impact on community groups and charities that have relevance in our employees' lives, enabling our employees to contribute to their communities through their work at Calnex.

**Outlook**

The transition to 5G and growth in cloud computing continues to drive demand for test instrumentation and Calnex is in a strong position to continue benefitting from these market trends. We have made good progress in executing on our strategy, paving the way for accelerated future growth. The recent acquisition of iTrinegy represents a move into a new adjacent market and we anticipate accelerated sales in the long-term. Furthermore, we have invested in our team and resources, the continued positive response to the new product launches provides optimism with regards to the long-term demand for our offering.

Whilst looking to the future with a degree of caution given the continuing component shortage situation, we can take confidence from the ability with which we have managed the situation to date, successfully shipping scheduled orders as planned. We move into FY23 with a record order book and look to the future with a strong sense of optimism.

Tommy Cook

**Tommy Cook**
Chief Executive Officer
23 May 2022

ESG

# Being responsible at Calnex

Calnex is a "people first" company built on trust and respect. Not only for each other but also for the environment and for the local communities of our employees across the globe, where we do whatever we can to make a meaningful impact.

Calnex is an innovative and forward-thinking business where our employees are encouraged to share their views, contribute to decision making, challenge behaviours and improve our processes to make a positive contribution to business success. This is reflected in the approach we take to delivering leading-edge test and measurement solutions for 5G networking and wireless technologies.

Our focus is increasingly on delivering platform products that enable software upgrades in line with customers' aspirations. We can't ***control*** how our customers use our products but we can ***influence*** how they benefit from additional functionality without the need for additional hardware. Thanks to the skills of our team, our in-depth knowledge, and market insight, our customers enjoy hardware longevity typically between 15 and 20 years.

Our software-first approach significantly reduces the impact our products have on the environment by building in best-in-class longevity and providing long-term expert support through cutting-edge upgrades that anticipate customer requirements.

Although already a low environmental impact business, the senior management team, and our staff, are keen to do more to tackle the environmental challenges facing the planet so we've launched an initiative to become an ISO14001 certified business by 2023 and established an employee-led environmental, social & charity team.

Starting this year, the Board has committed to build a Social Responsibility fund into our Financial Plan equal to 1% of the profits we generate. An employee-led team (with senior management sponsorship) will consider proposals from employees for donations or support for groups and/or events that matter to them. The Calnex Executive team want to support groups local to our employees and offices and empower our employees to make a difference in their community by directing heir employer to support activities/groups that they truly care about.

We also encourage employees to donate their time to make meaningful contributions. Group activities such as planting trees, re-planting local flower beds, helping out at food banks, etc., are beneficial in so many ways. Beyond the obvious benefit of the primary task and the psychological benefit from making a positive contribution, we recognise how significantly such activities boost team spirit and engender pride in being associated with a company that helps our employees make a meaningful, local difference.

We also work closely with the UK Electronics Skill Foundation (UKESF), supporting the future talent of Engineering in providing student placements and supporting STEM education and development.

Our continued success at Calnex, together with the diversity of our employees, enables us to make meaningful contributions all over the world. Guided and driven by what is important to our teams, we are committed to use the resources we have at our disposal to support events, charities and groups to demonstrate our commitment to Environmental, Social and Governance responsibilities.

### Products

Our products are innovative, leading-edge test and measurement solutions for designers and operators of the equipment and infrastructure that enables 5G networking and wireless technologies. 5G technologies provide enhanced mobile broadband, mission critical communications and the Internet of Things, all of which have a significant global impact across many aspects of society and industry.

Our approach to product development is as follows:

- we develop hardware platforms that can be enhanced with downloadable software upgrades in line with customers' ever-changing needs. For example, both our Paragon-X and Sentinel platforms, introduced in 2010, and 2013 respectively, are still supported by the Company.
- our products are built into test racks where they remain for as long as the customers' products are supported. Customers expect their products, once deployed in networks, to be utilised for 15-20 years.
- this longevity feeds back through the supply chain as our customers now expect that same longevity from test equipment vendors.
- our products are manufactured by a highly skilled contract manufacturer, Kelvinside Electronics, whose close proximity allows for excellent two-way support and communication regarding the complex technical challenges of building and testing our products.
- our bespoke product packaging is manufactured by a local supplier with a comprehensive environmental policy including a focus to reduce, reuse and recycle all packaging materials wherever possible.

### Environment

Both Calnex's operational processes and our products have a low environmental impact.

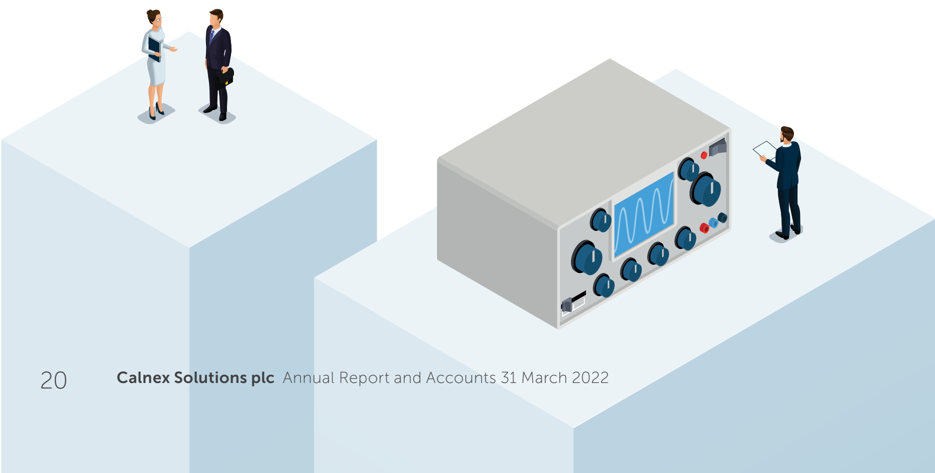
The majority of our staff are office-based and have the ability to work part of the week from home where their duties allow them to, performing their operations using computer and internet-based services. Our contract manufacturer, Kelvinside Electronics, is ISO14001 certified. Our products sales and customer support services are managed by locally-based partners together with Calnex support staff which greatly minimises global travel.

Our company HQ and the majority of our operations are based in serviced premises leased from Oracle in Linlithgow. Calnex use the waste recycling services provided by Oracle. Oracle have also invested in efficient lighting and air conditioning systems to help minimise energy consumption on site.

The small amount of electrical component and circuit board waste we generate is disposed of in accordance with the WEEE regulations.

Our products are designed as platforms enabling our customers to take advantage of future software upgrades and hardware longevity.

Despite being a low environmental impact business, we've launched an initiative to become an ISO14001 certified business by 2023. The ISO14001 standard defines a framework to formally manage the environmental impact of our business operations and products. Our recent positive experience and benefits of adopting the ISO9001 standard for our Quality Management System has spurred us on to secure the Environmental standard, ISO14001.



## People

### Our Culture

Calnex is a people first company built on trust and respect. We are transparent, sharing in the successes, the challenges and the Group's ambitions moving forward. We help and encourage each other, supporting the business and our colleagues in building on an already successful company. Calnex also enjoys and thrives on a diverse workforce where inclusion is key to building high performing, engaged and successful teams.

Respectful of each other, we consider how our actions, ideas and approaches impact others.

We work as one team.

Our strong values, as reflected in our Investors in People Gold Award, are promoted through a variety of employee engagement programmes:

- Robust **Recruitment Process** that only ever hires top talent and employees who value and support a positive working culture.
- Supportive **Induction Training Programme** including a comprehensive internally delivered training programme that supports the integration of new employees.
- **Mentoring Programme** to support the development of staff and career progression.
- Employee-built **Annual Review Programme** that recognises personal achievements and supports development and career progression.
- **Training and Development Opportunities** to further develop skillsets and/or secure educational qualifications.
- Group-wide **Compliance Training** to remain legally compliant worldwide.
- A benchmarked **Benefits Package** that strongly supports the financial, physical and mental wellbeing of our people including, amongst other things, profit share for staff, an employee share incentive plan, a flexible/hybrid working model, an employee wellbeing activity programme (including fitness classes, an onsite gym, and free use of facilities at the local sports and recreation centre, a healthcare scheme available to all staff and income protection and life assurance polices.
- **Quality Management System** that encourages inclusivity and drives process improvement.
- Regular **Culture sessions** chaired by Calnex's CEO to gather feedback on the Company's culture, practices and processes, encouraging employees to provide their input into organisational development.
- Annual **Employee Surveys** to enable two-way dialogue on topics such as company strategy, career progression opportunities and other current topics affecting the working lives and wellbeing of our employees.

**Tommy Cook**
Chief Executive Officer
23 May 2022

# Chief Financial Officer's statement

**"The Group delivered a strong financial performance in the year to 31 March 2022, with growth in revenue, underlying EBITDA and adjusted profit before tax, resulting in a positive trading cashflow for the year.**

**Ashleigh Greenan**
Chief Financial Officer

# Financial KPIs: three year trends

### Revenue (£'000)

**22,046**

| | |
|---|---|
| 2022 | 22,046 |
| 2021 | 17,978 |
| 2020 | 13,739 |

### Gross profit (£'000)

**16,528**

| | |
|---|---|
| 2022 | 16,528 |
| 2021 | 13,965 |
| 2020 | 10,622 |

### Gross margin %

**78%**

| | |
|---|---|
| 2022 | 75% |
| 2021 | 78% |
| 2020 | 77% |

### Underlying EBITDA (£'000)

**6,352**

| | |
|---|---|
| 2022 | 6,352 |
| 2021 | 5,496 |
| 2020 | 4,156 |

### Underlying EBITDA %

**31%**

| | |
|---|---|
| 2022 | 29% |
| 2021 | 31% |
| 2020 | 30% |

### Adjusted profit before tax (£'000)

**5,973**

| | |
|---|---|
| 2022 | 5,973 |
| 2021 | 5,068 |
| 2020 | 3,535 |

### Adjusted Profit before tax %

**28%**

| | |
|---|---|
| 2022 | 27% |
| 2021 | 28% |
| 2020 | 26% |

### Closing cash and fixed term deposits (£'000)

**15,357**

| | |
|---|---|
| 2022 | 15,357 |
| 2021 | 12,668 |
| 2020 | 3,664 |

### Capitalised R&D costs (£'000)

**3,905**

| | |
|---|---|
| 2022 | 3,905 |
| 2021 | 3,326 |
| 2020 | 2,882 |

### Adjusted basic EPS (pence)

**5.19**

| | |
|---|---|
| 2022 | 5.19 |
| 2021 | 5.83 |
| 2020 | 4.58 |

### Adjusted diluted EPS (pence)

**5.00**

| | |
|---|---|
| 2022 | 5.00 |
| 2021 | 5.21 |
| 2020 | 3.66 |

### Financial KPIs

| £000 | FY22 | FY21 |
|---|---|---|
| Revenue | **22,046** | 17,978 |
| Gross Profit | **16,528** | 13,965 |
| Gross Margin | **75%** | 78% |
| Underlying EBITDA[1] | **6,351** | 5,496 |
| Underlying EBITDA % | **29%** | 31% |
| Adjusted Profit before tax[1,2] | **5,973** | 5,068 |
| Adjusted Profit before tax % | **27%** | 28% |
| Closing cash and fixed term deposits[3] | **15,357** | 12,668 |
| Capitalised R&D | **3,905** | 3,326 |
| Adjusted basic EPS (pence)[1] | **5.19** | 5.83 |
| Adjusted diluted EPS (pence)[1] | **5.00** | 5.21 |
| Statutory measures:[4] | | |
| Profit before tax | **5,973** | 3,647 |
| Profit before tax % | **27%** | 20% |
| Basic EPS (pence) | **5.19** | 4.68 |
| Diluted EPS (pence) | **5.00** | 4.18 |

1 Refer to note 32 for explanation of the alternative performance measures calculations.

2 Adjusted in comparative periods to exclude IPO costs and IPO related share based payments and the tax effect of these adjustments. As a result of the Company's admission to AIM occurring halfway through FY21, the basic and diluted weighted average number of shares in issue in the prior year were 73,762,000 and 82,575,000 respectively, compared with 87,500,000 total share capital and 90,150,000 diluted share capital post IPO.

3 The Group takes advantage of high interest deposit accounts for surplus cash balances not required for working capital. Under IAS 7 Statement of Cash Flows, cash held on long-term deposits (being deposits with maturity of greater than 95 days, and no more than twelve months) that cannot readily be converted into cash is classified as a fixed term investment.

4 A full reconciliation between Underlying EBITDA and adjusted profit before tax and the statutory measures is shown in the Financial Review on page 25 and in note 32.

### Reconciliation of statutory figures to alternative performance measures – Income Statement

| | FY22 £000 | FY21 £000 |
|---|---|---|
| **Revenue** | **22,046** | 17,978 |
| Cost of sales | **(5,518)** | (4,013) |
| **Gross Profit** | **16,528** | 13,965 |
| Other income | **648** | 530 |
| Administrative expenses (excluding depreciation & amortisation) | **(7,917)** | (7,941) |
| EBITDA | **9,259** | 6,554 |
| Amortisation of development costs | **(2,908)** | (2,479) |
| *Add back exceptional items:* | | |
| IPO costs | **–** | 1,057 |
| Issue of Free Shares on IPO under Share Incentive Scheme | **–** | 166 |
| Share based payments | **–** | 198 |
| **Underlying EBITDA** | **6,351** | 5,496 |
| Other depreciation & amortisation | **(358)** | (273) |
| **Operating Profit** | **5,993** | 5,223 |
| Finance costs | **(20)** | (155) |
| **Adjusted profit before tax** | **5,973** | 5,068 |
| Exceptional items | **–** | (1,421) |
| **Profit before tax** | **5,973** | 3,647 |
| Tax | **(1,433)** | (194) |
| **Profit for the year** | **4,540** | 3,453 |

### Revenue

Revenue recognised in the year grew 23% to £22.0m (FY21: £18.0m). Order intake and revenue grew across all three product lines and regions compared to the prior year. Revenues from the Americas and Rest of World regions increased 23% and 31% respectively. North Asia revenues grew by 14%, after a flat first half which was due in part to the ongoing geopolitical tensions between the US and China. Americas accounted for 32% of total revenues (FY21: 32%), ROW 37% (FY21: 35%) and North Asia 31% (FY21: 33%) in the year.

The business also closed the FY22 year with a record order book, providing a strong foundation going into FY23.

## Revenue model

Calnex generates revenues through the sale of bundled hardware and software, alongside the provision of software support and extended warranty programmes.

The Group's core sales model is bundled hardware and software. Sales pricing is dependent on the product type and the complexity of the software configuration built into the product package. Calnex also sells stand-alone software upgrades under licence.

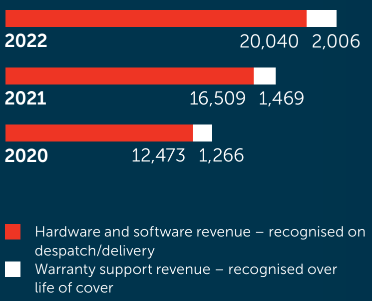
Each of Calnex's units comes with a standard warranty period including maintenance and software upgrade cover in the event of any software upgrades being released for the options purchased. Calnex also sells software support programmes which provide customers with access to future software upgrades which are not included as part of the standard warranty. The Group also offers extended warranty programmes to cover repairs falling outwith the standard warranty period.

Bundled hardware and software revenues are recognised when delivered to the customer, with stand-alone software revenues recognised in line with the licence period. Revenues from software support and extended warranty programmes are typically recognised on a straight-line basis over the term of the contract.

Many of the products and services developed and deployed by Calnex's customers are interlinked and need to be tested independently, such as the individual components which are then built into the equipment used in telecoms networks. Calnex's test products can be used by a combination of equipment vendors, component manufacturers and network operators, to carry out testing during a new product development cycle. A customer can choose to use Calnex's products in the knowledge that a more consistent result may be obtained if a Calnex test solution had already been used on a particular product.

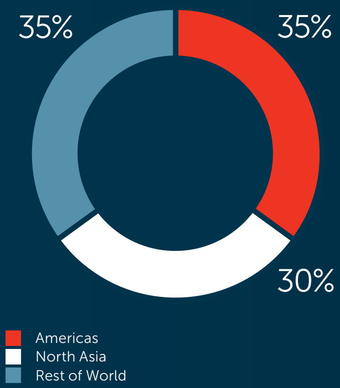
## Sources of Revenue

### Revenue streams (£'000)



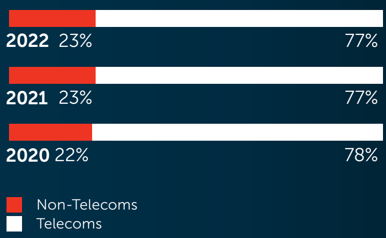

In FY22, 91% (FY21: 92%) of the Group's revenues were generated from the sale of bundled hardware and software products, with 9% (FY21: 8%) from software support and extended warranty programmes.

### Geographical split (orders)




The Group's customers are located across the world. Our global customer base and distributor network gives the Group the ability to spread risk across our three key regions: the Americas, North Asia and Rest of the World. On a 3 year average basis, the split of orders across the three key regions was 35% for Americas (FY21: 34%), ROW 35% (FY21: 33%) and 30% (FY21: 33%) for North Asia. North Asia experienced a decrease in the Period reflecting the ongoing US-China geopolitical tensions, which are also exacerbating the component shortage issues in the region.

### Telecoms v non-telecoms customers (% of orders)

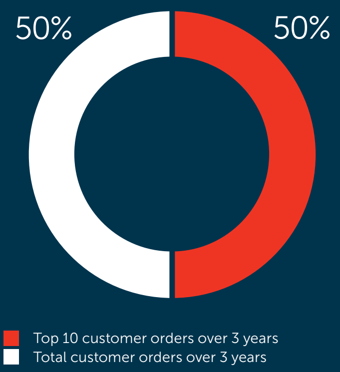



Calnex's sales are predominantly derived from telecoms customers where the end-application is a telecoms (fixed and mobile) network. Non-telecoms customers include hyperscale/data centres and enterprise customers. These non-telecoms customers represented 23% of the Group's revenues in FY22 (FY21: 23%).

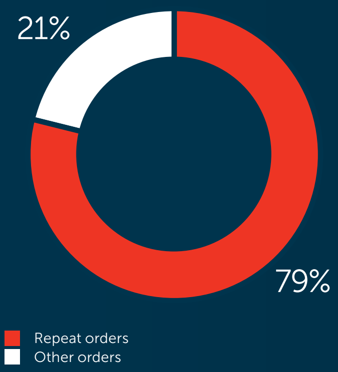
As telecoms networks evolve, we are finding a number of companies whose primary business is hyperscale/datacentres and IT are also moving into the telecoms space. We classify sales to these non-telecoms companies for use in telecoms applications as telecoms sales for the purposes of this analysis.

## **Financial Review** continued

### Top 10 customer orders




### Repeat customers (3 year average orders)




In FY22, Calnex received orders from 233 customers, an increase of 34 on 199 customers in FY21.

The Group's top ten customers in FY22 accounted for 53% of total orders (FY21: 46%) and 50% of total orders on average over the last three years (FY21: 49%).

In FY22, no underlying customer accounted for more than 13% of Calnex's total orders.

The average length of customer relationship across the top ten customers in FY22 is 10 years, demonstrating our high levels of repeat demand from these customers. In addition, the Group typically experiences a high level of repeat business from its total customer base. In FY22, 79% of orders were generated from existing customers (FY21: 80%).

During the last five years, 199 (FY21: 177) customers have placed repeat orders with Calnex.

**Gross Profit**
Gross profit increased by 18% to £16.5m (FY21: £13.9m) reflecting the strong trading performance, and gross margin is in line with market expectations at 75% (FY21: 78%). Gross margin is calculated after discounts to channel partners are applied. Gross margins can fluctuate year on year depending on the mix of products and the mix of the hardware and software bundles at any given time, so can differ slightly when comparing periods. The product mix has been the main driver behind the gross margin variance to the prior year.

**Underlying EBITDA**
Underlying EBITDA, which includes R&D amortisation and is adjusted in the prior year to exclude IPO costs and specific share based payments relating to the IPO, increased by 16% to £6.4m in the year (FY21: £5.5m), comfortably ahead of market expectations as a result of the strong trading performance.

Administrative expenses (excluding depreciation & amortisation), excluding IPO costs and IPO related share based payments were £7.9m in FY22 (FY21: £6.5m). The increase in administrative costs relates to higher staff costs as we continue to grow the teams across the business, staff profit share and higher sales team commissions as a result of the increased trading performance, offset by savings in foreign exchange costs. Travel and events costs increased only slightly in the year as teams continued to work from home for the majority of the year. We expect these costs to increase in the following year as COVID-19 restrictions are lifted.

Amortisation of R&D costs increased by £0.4m to £2.9m (FY21: £2.5m) as a result of increases in R&D investment in recent years supporting growth in revenues.

Underlying EBITDA margin was 29% in FY22 compared to 31% in FY21 driven by the change in gross margin, offset slightly by a reduction in administrative costs as a percentage of revenue compared with the prior year.

**Exceptional costs**
Exceptional costs relate to costs associated with the Company's admission to AIM in October 2020. These costs are solely related to FY21.

**Adjusted profit before tax**
Profit before tax (adjusted in the prior year to exclude IPO costs and IPO related share based payments) was £6.0m (FY21: £5.1m) driven by the growth in revenue performance in the year. Adjusted profit before tax margin was 27% in FY22 compared to 28% in FY21 driven by the change in gross margin, offset by savings in finance costs as a result of the repayment of the term loan in October 2020 and by a reduction in administrative costs as a percentage of revenue compared with the prior year.

**Tax**
The tax charge in the year was £1.4m (FY21: £0.2m), representing an effective tax rate of 24.0% (FY21: 5.3%).

The weighted average applicable tax rate for FY22 was 19% (FY21: 19%). The difference between the applicable rate of tax and the effective rate is largely due to the following:

Recognition of the change in tax rate to 25% on certain deferred tax assets and liabilities as they are expected to reverse after 1 April 2023 (increasing the effective rate by 5.9%);
- Availability of R&D SME enhanced deduction (decreasing effective rate by 0.3%);
- Impact of the super deduction in relation to fixed asset additions (decreasing the effective rate by 0.3%); and
- Other differences, such as prior year adjustments, disallowable expenses and overseas tax (decreasing effective rate by 0.3%).

The difference between the applicable rate of tax and the effective rate in FY21 was due to the following:
- Tax relief on exercise of share options by Calnex UK based employees on IPO on which no deferred tax asset had previously been recognised (decreasing the effective rate by 15.6%);
- R&D SME enhanced deduction (decreasing the effective rate by 3.4%); and
- Permanent differences such as IPO costs which are disallowed for tax purposes (increasing the effective rate by 5.3%).

### Earnings per share

Basic earnings per share was 5.19 pence in the year (FY21: 4.68 pence) and diluted earnings per share was 5.00 pence (FY21: 4.18 pence).

Adjusted in the prior period to exclude IPO costs and IPO related share based payments and the tax effect of these adjustments, adjusted basic earnings per share was 5.19 pence in the year (FY21: 5.83 pence) and adjusted diluted earnings per share was 5.00 pence (FY21: 5.21 pence).

Adjusted EPS excludes IPO costs (including IPO related share based payments) and the tax effect of these adjustments:

| £000 | **Year ended 31 March 2022** | Year ended 31 March 2021 |
|---|---|---|
| **Profit after tax** | **4,540** | 3,453 |
| Adjusted for: | | |
| Discontinued operations | **–** | – |
| IPO exceptional costs | **–** | 1,421 |
| Tax relief on share option exercise | **–** | (570) |
| **Total adjusted profit after tax** | **4,540** | 4,304 |
| | | |
| **Weighted average number of ordinary shares:** | | |
| Basic earnings per share | **87,500** | 73,762 |
| Diluted earnings per share | **90,845** | 82,575 |
| | | |
| **Earnings per share** | | |
| Basic earnings per share | **5.19** | 4.68 |
| Diluted earnings per share | **5.00** | 4.18 |
| Adjusted basic earnings per share | **5.19** | 5.83 |
| Adjusted diluted earnings per share | **5.00** | 5.21 |

The variance in the adjusted EPS figures compared to the prior year is largely driven by:

- The basic and diluted weighted average number of shares in issue in the prior year were 73,762,000 and 82,575,000 respectively, compared with 87,500,000 total share capital and 90,845,000 diluted share capital post IPO.
- Additionally, the FY21 tax charge adjusted for the items above is £0.7m and the adjusted effective tax rate is 15% (£0.7m tax charge as percentage of the adjusted profit before tax of £5.1m), compared to the effective tax rate of 24% in FY22.

### Cashflows

The Group generated £2.7m cash in FY22 including fixed term deposits, compared with £9.0m in FY21 which included IPO net proceeds and government grant cash received in advance. Cash generated in FY21 excluding these factors was £5.4m.

### Reconciliation of statutory figures to alternative performance measures – Cashflow

| | **FY22 £000** | FY21 £000 |
|---|---|---|
| **Net cash from operating activities** | **7,350** | 9,049 |
| Investing activities – intangible and property, plant and equipment | **(4,213)** | (3,342) |
| Dividends paid | **(245)** | – |
| Other financing activities (excluding IPO related cashflows) | **(203)** | (276) |
| **Increase in cash before IPO, debt and advanced government grant cashflows, and transfers to fixed term investments** | **2,689** | 5,430 |
| Repayments of borrowings | **–** | (2,276) |
| IPO related cashflows | **–** | 5,271 |
| Government grant cash received in advance | **–** | 578 |
| Fixed term investment: fixed term deposit | **(1,500)** | – |
| **Increase in cash per consolidated cashflow statement** | **1,189** | 9,003 |

Net cash from operating activities was £7.4m in the year compared to £9.0m in FY21. The £2.2m increase in profit before tax in FY22 compared to FY21 was offset by a £4.0m swing in working capital movements, driven predominantly by increases in trade receivables as a result of the strong trading performance in the year. Trade receivables were £4.1m at 31 March 2022 (31 March 2021: £1.0m). £3.9m of this cash was received in the 30 days post year end.

Cash used in investing activities is principally spent on R&D activities which is capitalised and amortised over five years. Investment in R&D in the year was £3.9m (FY21: £3.3m), reflecting the growth in the team as R&D project resource demands increased as planned.

The Group takes advantage of high interest deposit accounts for surplus cash balances not required for working capital. Under IFRS, cash held on long-term deposits (being deposits with maturity of greater than 95 days, and no more than twelve months) that cannot readily be converted into cash is classified as a fixed term investment. This is shown separately on the balance sheet and also classed as a cash outflow within investing activities in the consolidated cashflow statement. It is added back in the non-statutory cash flow reconciliation above as we regard this as cash generated and owned by the Group in the year.

Cash spend on financing activities in the year was £0.4m (FY21: £3.3m inflow; £0.3m outflow before IPO related cashflows and government grant cash received in advance), representing payment of lease obligations and dividend payments. The Board approved a maiden interim dividend of 0.28 pence per ordinary share on 17 December 2021 to those shareholders on the register as at 3 December 2021 (FY21 Interim dividend 0p), totalling £0.3m. A final dividend of 0.56 pence per share (£0.5m) is proposed by the Board to be paid if approved by shareholders at Company's AGM in August 2022.

There is currently no debt on the balance sheet, leading to no borrowings related cashflows in the current period.

The total proceeds raised from the IPO in the prior year was £22.5m, which comprised 34,375,000 shares sold on behalf of existing shareholders to raise £16.5m and 12,500,000 new shares issued to raise £6.0m (before expenses) for the Group. £0.3m cash was also raised as a result of the exercise of share options. Total IPO fees were £1.1m in the prior year. The Group also received £0.6m in grant funding from Scottish Enterprise in FY21. £0.5m of this cash was received in advance for the FY22 year.

Closing cash at 31 March 2022, including fixed term deposits, was £15.4m (31 March 2020: £12.7m).

**Ashleigh Greenan**
Chief Financial Officer and Company Secretary
23 May 2022

# Principal Risks and Uncertainties

The Board has overall responsibility for the Group's risk management processes and internal control procedures. The Board provides oversight and has established controls designed to help the Group meet its business objectives by appropriately managing the principal risks and uncertainties that could have a material impact on the Group's performance.

The Board regularly assesses the Group's exposure to risk and seeks to ensure that risks are mitigated wherever possible. Risk assessments are also undertaken by the Board whenever there is a potential material change to the principal risks and uncertainties.

The Audit Committee has responsibility for reviewing the Group's internal controls and risk management systems for effectiveness. It oversees and reviews the Group's executive management team's internal control and risk management processes throughout the year.

Day-to-day risk management is the responsibility of the Group's executive management team and the senior managers within the business. Any potential changes to risk are reviewed regularly during executive management meetings.

The Board maintains a risk register for all principal activities of the Group. The risk register details the potential risk likelihood, mitigating factors, mitigated level impact and action owner. The executive management team meet regularly and consider new risks and opportunities presented to the Group, making recommendations to the CEO which are then fed back to the Audit Committee and Board if significant. Employees are also encouraged to report any new risks through the Group's internal reporting procedures.

The Board sets out below the principal risks and uncertainties that the directors consider could have a material impact on the business. These risks are monitored on a continuing basis. The Board recognises that the nature and scope of risks can change and that there may be other unknown risks to which the Group is exposed or which may become material in the future.

A bottom up financial planning process is conducted once a year for review and approval by the Board. The Group's results, compared with the annual financial plan (and any relevant reforecasts), are reported to the Board on a monthly basis.

The Group maintains appropriate insurance cover in respect of actions taken against the directors because of their roles, as well as against material loss or claims against the Group. The insured values and type of cover are comprehensively reviewed by the Board on a periodic basis, after detailed specialist advice from the Group's insurance brokers.

The Group has in place documented authority levels for approving purchase orders, invoices and all bank transactions, with any expenditure in excess of predefined levels requiring approval from the executive directors.

The Group is focused on meeting the highest levels of customer satisfaction, and has put in place an ISO9001 certified Quality Management System. Quality procedures for the development of products, services and maintenance support are documented and reviewed frequently.

Given the size of the Group, the Board has concluded it is not appropriate to establish a separate, independent internal audit function but will keep this under review.

Details of financial risks are outlined in note 22 to the financial statements. Refer to pages 95 to 96 for more details.

| Risk | Impact | Mitigation |
| --- | --- | --- |
| **SUPPLY OF ELECTRONIC COMPONENTS** | The shortage of electronic components and resulting extended lead times is affecting all sectors utilising such parts. Procurement of parts has been more challenging through FY22 and this trend looks set to continue in the near term until the global supply increases to align to the demand. | The Group has worked closely with the procurement teams at our contract manufacturer, Kelvinside Electronics, to secure stock to maintain production throughout the period. Stock levels have been increased to increase the resiliency to shortages.<br><br>The typical lead times our customers expect is 4-6 weeks, and it is not unusual for orders to be acknowledged with longer lead times (e.g. 8-10 weeks), for example, in periods of high demand. This tolerance of the customer base to accept long lead times has assisted in the management of short term issues caused by production output delays due to component shortages.<br><br>The Directors and executive management team continue to work closely with Calnex's internal manufacturing team and Kelvinside Electronics to manage the situation and while some near term disruptions to shipments dates are expected, it is not expected to impact our market position or ability to manage customer expectations, hence impact the underlying strengths of the business. |

## Principal Risks and Uncertainties continued

| Risk | Impact | Mitigation |
|---|---|---|
| **MANUFACTURING AND RELATIONSHIP WITH SINGLE MANUFACTURER** | The Group outsources the manufacturing of its products to a single contract manufacturer, Kelvinside Electronics. Kelvinside Electronics procures and stocks all components (both electronic and mechanical parts) and manufactures the printed circuit assemblies for Calnex's products. The Group is therefore highly reliant on Kelvinside Electronics being able to manufacture Calnex's products within agreed timescales, including the sourcing of unique parts, in line with agreed specifications. In the event that Kelvinside Electronics is unable to meet product orders or that products manufactured by Kelvinside Electronics are found not to meet agreed specifications or are faulty, there could be a significant impact on Calnex's ability to fulfil customer orders. | The Group's executive management team monitors Kelvinside Electronics' disaster recovery plans and the availability of alternative UK-based contract manufacturers with comparable capability and is satisfied that in the unlikely event of a manufacturing or other issue affecting Kelvinside Electronics, the Group should be able to manage the situation until the outage was resolved or production has been moved to an alternative supplier (including the sourcing of replacement components in the event it was not possible to transfer the stock held by Kelvinside Electronics).<br><br>The Group's close working relationship and information sharing process with Kelvinside Electronics includes regular communication and sharing of rolling forecasting and stock level data. This process allows for early warning of any potential delay concerns from end suppliers and prompts discussion around specific procurement arrangements on certain parts. The business' management also regularly review alternative parts supply. |
| **DISTRIBUTION AND RELATIONSHIP WITH SPIRENT** | Spirent is Calnex's principal distribution partner. Spirent's distribution network provides Calnex with access to a number of its key markets, including the US, China and India. In FY22, 76% of Calnex's orders were distributed through Spirent. Given that the Spirent distributor relationship accounts for such a significant proportion of Calnex's annual revenue, and provides Calnex with access to key markets, Calnex's business could be materially adversely affected in the event of: (i) Spirent's non-performance or breach of its obligations under the distributor agreement with the Group; (ii) Spirent terminating its distributor agreement with Calnex, or electing not to renew the arrangement upon the expiry of its current term on substantially the same terms; and/or (iii) Spirent suffering a force majeure event, or a bankruptcy or insolvency event or similar, which results in Spirent ceasing or significantly reducing operations. | The Board believes that the Spirent throughput in FY22 is not indicative of the Group's reliance on Spirent for revenues and that Calnex has strong direct relationships with the relevant end users. In addition, all products are branded as Calnex products when they are sold through Spirent and customers are fully aware that they are buying a Calnex product through the Spirent channel.<br><br>The Group has changed channel partners multiple times in the past and has managed this process with little disruption to trading. |

| Risk | Impact | Mitigation |
|---|---|---|
| **CYBER SECURITY RISK** | The operational processes of Calnex and the management of the company's intellectual property are all dependent on our IT systems.<br><br>There are risks at all levels of the business ranging from all staff being subjected to potential scam emails and internet viruses, to a malicious cyber-attack on the company resulting in a potential ransomware threat. | The Group operates comprehensive staff training, systems and data security, back-up and insurance procedures to protect against a cyber-based incident. |
| **COVID-19 PANDEMIC** | While the value of robust telecoms infrastructure has been demonstrated by the response of many companies to move to remote working, the directors are aware that the COVID-19 pandemic, any resulting impact on global economic conditions and any possible future outbreaks of viruses, may affect the ability of the Group and its customers to do business. | The business has not seen any detrimental impact on trading in the year to 31 March 2022 as a result of the pandemic. The Group is not significantly exposed to industries that have been heavily affected by COVID-19 and management has been able to implement remote working from home since the beginning of the rollout of global lockdown measures to continue to operate effectively and meet customer requirements.<br><br>Appropriate safety measures have also been put in place to protect staff that need to visit our offices whilst adhering to government advice on stay at home directives across our various locations.<br><br>The staff have now returned to the Calnex offices and the Group is operating a hybrid working model allowing staff to work from home as appropriate. The directors continue to monitor the government guidance and will reintroduce all safety measures where required. |
| **OTHER THIRD PARTY SUPPLIERS, DISTRIBUTORS AND CONTRACTORS** | The Group is reliant, to an extent, on third parties for various processes, products and services which the Group requires in order to deliver its products. Termination of these relationships and/or breach of arrangements agreed with third parties and/or failure of such third parties to otherwise deliver the contracted services and/or failure to engage alternative third parties could be a risk to the Group. | The Group monitors its relationships and maintains open dialogue with these key third parties closely in order to mitigate against this risk. |

## Principal Risks and Uncertainties continued

| Risk | Impact | Mitigation |
|---|---|---|
| **GEOPOLITICAL LANDSCAPE** | The political landscape within which the Group operates is going through a period of change, particularly with regards to US/UK/China relationships, the consequences of the UK's Brexit deal, potential developments around Scottish independence and the consequences of the Russian invasion of Ukraine. Changes to UK and international government policy, funding regimes, infrastructure initiatives, or the legal and regulatory framework may result in structural market changes or impact the group's operations in terms of reduced profitability, increased costs and/or a reduction in operational flexibility or efficiency. | The Group monitors carefully future developments that arise out of these changes to the landscape and will engage in any relevant regulatory processes. The geographical spread of the Group's operations acts as a mitigating factor against any concentrated economic risk.<br><br>The Group has carried out little business with Russia, Ukraine or Belarus over the years hence the conflict involving these countries will have minimal direct impact on the business although the wider implications of the conflict continue to be monitored. |
| **TECHNOLOGICAL CHANGE** | The markets for the Group's products are characterised by rapidly changing technology, and increasingly sophisticated customer requirements. It is critical to the success of the Group to be able to anticipate changes in technology or in industry standards and to successfully develop and introduce new, enhanced and competitive products on a timely basis and keep pace with technological change. | Calnex, since inception, has developed and maintained a close involvement with the standards community and with regulatory bodies to ensure it has early insight to industry developments to keep the Group's R&D programmes well informed.<br><br>Senior management also have regular meetings with key end customers to maintain visibility over their technology roadmaps.<br><br>The insight from these relationships enables Calnex to produce a demand-led offering in line with market developments, customers' future requirements and regulatory standards. |
| **KEY INDIVIDUALS** | The Group's business, development and prospects are dependent on a number of key management personnel. The loss of the services of one or more of such key management personnel may be a risk to the Group. | The directors believe the Group operates a progressive and competitive remuneration policy which includes the potential awards of share incentives to staff. The future development and implementation of this policy will play an important part in retaining and attracting key management personnel. |

| Risk | Impact | Mitigation |
|---|---|---|
| **COMPETITIVE POSITION** | The Group operates in the telecoms industry and the Group's competitors are, in many cases, significantly larger enterprises with greater financial and marketing resources. There may also be new entrants to the market. In response to competitive activity, the Group may be forced to make changes to its products or services. | The executive management team monitor competitors' service offerings closely. Strong customer engagements also provide visibility of future needs which provide mitigation against a competitor gaining a significant time-to-market advantage. |

# S172(1) Statement

Section 172 (1) of the Companies Act obliges the directors to promote the success of the Group for the benefit of the Company's members as a whole.

The section specifies that the directors must act in good faith when promoting the success of the Company and in doing so have regard (amongst other things) for:

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

The ways in which these duties are addressed is set out below:

## Consequences of any decision in the long-term

The Board is responsible for the decisions made in support of the long-term success of the Group and how the business has implemented strategic, operational and risk management decisions. For more information on the business strategy and developments during the year, refer to page 10 of the Strategic Report.

## Employees

The Group has a strong focus on maintaining a culture of employee engagement and wellbeing. Our employees play a key role in the success of our business' strategic goals and the Board recognises the importance of a positive and supportive working environment for our staff.

Refer to page 19 and 21 of the Strategic Report for further detail on our culture and employees, including activities during the year.

### Suppliers, customers and regulatory authorities

The Board recognises that trusted and constructive partnerships with our suppliers, customers and regulatory authorities are important to the success and growth of the business. The Board and the executive management team ensure transparent and regular communication with suppliers and customers and the business values the feedback we receive. We take every opportunity to ensure that this feedback is taken into consideration in the Group's decision making.

The sophisticated nature of Calnex's products requires a high level of customer and supplier interaction from Calnex staff throughout the sale process and the Group is typically regarded as a trusted partner by both its distributors and customers. The high level of engagement with customers and our key contract manufacturer provides Calnex with visibility of industry direction and gives valuable insight for the Group's R&D and product development activities.

The Group also has processes in place to monitor new regulations and compliance requirements that may impact the business – including, for example, compliance with required standards and certifications, financial accounting and reporting updates and tax accounting and reporting compliance. Although Calnex itself is not regulated as a supplier of electronic test instrumentation, the Group is required to comply with certain regulations regarding safety, quality and radio frequency emissions standards in order to market its products in certain jurisdictions.

Refer to page 18 of the Strategic Report for further detail on the Group's interaction and relationship with our customers and suppliers.

### Community and environment

Although it is not mandatory for a Group of Calnex's size to report under the Streamlined Energy and Carbon Reporting (SECR) rules, awareness of the impacts on the environment and the community around us are taken into account in the Group's decision-making processes. The nature of the Group's business model and activities means a high proportion of processes which address current environmental challenges are embedded into our supply chain – predominantly through our landlord, our contract manufacturer and our distributor network. All of these key stakeholders who feed into the Calnex business model are also prioritising the environment in their planning and strategic decisions.

Starting this year, the Board has committed to build a Social Responsibility fund into our budget for FY23 equal to 1% of the profits we generate. An employee-led team (with senior management sponsorship) will consider proposals from employees for donations or support for groups and/or events that matter to them. The Group also gives employees one day off a year to spend on a charitable day helping in the community.

Refer to page 19 and 20 of the Strategic Report for more detail on the community and environmental activities undertaken by the Group and its supply chain.

### Maintaining high standards of business conduct

The Company is incorporated in the UK, is governed by the Companies Act 2006 and has also adopted the Quoted Companies Alliance Corporate Governance Code 2018 (the "QCA Code"). The Board recognises the importance of maintaining high standards of corporate governance, and together with the requirements to comply with the AIM Rules, this ensures that the interests of the Group's stakeholders are protected. Robust financial controls are also in place and regularly reviewed and documented.

The Board ensures ethical behaviour and business practices are maintained across the business and compliance policies are provided to staff upon joining the business and recirculated annually. Training is also provided at regular intervals thereafter to ensure that all employees within the business are aware of their importance:

- Anti-bribery and corruption training is mandatory for all staff. The Group expects honest and professional behaviour from all staff and stakeholders and there is zero tolerance for bribery and unethical behaviour by anyone working in or with the Group;
- The Group also has an anti-slavery and human trafficking policy statement which all staff are made aware of; and
- A whistleblowing policy is in place to allow employees to raise any concerns confidentially with senior management, Board members or with Protect, the whistleblowing charity.

## Shareholders

The Board recognises the requirement to present fair, balanced and understandable information to all stakeholders and particularly our shareholders. The Group is committed to transparent and effective communications with all of its shareholders so that there is a clear understanding of the Group's strategic objectives and performance.

The Group's approach to investor relations is described in more detail in the Corporate Governance section at page 44.

The following table summarises some of the significant decisions made by the Board during the year ended 31 March 2022 which demonstrate the way in which the Board has exercised its section 172 (1) duty and the stakeholder groups impacted by their decision.

**Events in the year**

| Significant event | Key stakeholder group affected |
| --- | --- |
| **COVID-19 response**<br>Calnex supported its staff through lockdown as the business transitioned to remote working to safeguard its employees and adhered to Government guidelines. The directors were grateful to staff for their rapid adaptation to working remotely. During the pandemic, Calnex continued to hire new people to support the Group's growth.<br><br>• The road into lockdown:<br>– Immediate action taken when lockdown enforced.<br>– Support with setting expectations and providing advice on how to adapt.<br>– Priority to office access given to those unable to work from home. Extra safety measures put in place.<br><br>• Throughout lockdown:<br>– Regular communications from the executive management team on the rules, how they applied to us and how to stay safe.<br>– Adjustment to our wellbeing activities to encourage breaks in the working day (adding mindfulness and yoga to our calendar of activities).<br>– Online worldwide team-building events to bring the team together.<br>– Regular culture meetings with CEO and HR to collect feedback on lockdown working advantages and challenges and the planned phased return to office-based working.<br>– Regular reference to Employee Assistance Programme for support and open door to management.<br>– Mental Health webinars to enhance support as lockdown continued.<br>– Guidelines to Working in the office (updates).<br><br>• Returning to office based working:<br>– Further flexibility offered through hybrid model.<br>– Clear communication of planned approach.<br>– Phased return using rota system for return. | Consequences of any decision in the long-term<br><br>Employees |

| Significant event | Key stakeholder group affected |
|---|---|
| **Dividend**<br>• The Board approved a maiden interim dividend of 0.28 pence per ordinary share to those shareholders on the register as at 3 December 2021, totalling £0.3m.<br>• A final dividend of 0.56 pence per share, totalling £0.5m, is proposed by the Board to be paid after approval by shareholders at Company's AGM in August 2022.<br>• The dividend policy is in line with plans set out in the IPO Admission Document published in October 2020 as part of the Group's strategy to provide attractive financial returns to all shareholders.<br>• The Board reviews the dividend policy and approves the interim and annual dividends taking into account the results and financial position of the Group. | Shareholders |
| **Investors in people**<br>• The Group was awarded a Gold standard accreditation from Investors in People ('IIP') in June 2021, a rare achievement for companies from their first assessment by IIP.<br>• This provides recognition of Calnex as an organisation with the very best in people management excellence.<br>• Launched in 1991, IIP is an internationally recognised benchmark for leading, supporting and managing people to achieve better results at work. Under 20% of companies assessed by IIP achieve Gold accreditation.<br>• The IIP assessor findings included evidence that our people feel valued and appreciated, and through regular conversations with their managers understand what is expected of them and how their contribution fits with the overall business strategy.<br>• Evidence also showed that our employees enjoy challenging and interesting work and believe there are opportunities for progression within the Group.<br>• Our results were also above the IIP average in every indicator.<br>• We will continue to work with IIP to discuss their recommendations for further developing our people strategy and ensuring we maintain this level of accreditation and continue to provide an excellent employee experience at Calnex. | Employees<br><br>Shareholders |
| **Kelvinside/Components supply shortages**<br>• The strength of the relationship has been demonstrated through the success from cooperation and support working together to deal with issues created from the global component shortages.<br>• The skills, knowledge and experience of Kelvinside's procurement team working with the Calnex Operations and R&D teams, collectively, have enabled Calnex to navigate numerous problems to maintain shipments to customers on committed ship dates.<br>• In parallel to dealing with the day-to-day issues, Calnex and Kelvinside are cooperating to evolve of forecasting approaches and processes to increase flexibility, responsiveness and robustness to address component availability both in the near and long term. | Consequences of any decision in the long-term<br><br>Suppliers<br><br>Customers<br><br>Shareholders |

**Further details**

For further details of how the Board operates and the way in which it makes decisions, including key activities during the financial year ended 31 March 2022 and Board governance, refer to the Corporate Governance section at pages 44 to 50 and the Board Committee reports thereafter.

This Strategic Report was approved by the Board on 23 May 2022 and signed on its behalf by:

**Ashleigh Greenan**
Chief Financial Officer and Company Secretary
23 May 2022

# Our leadership

**George Elliott**
Independent Non-Executive Chairman

George has been Chair of Calnex since 2013. He is currently non-executive Chair of Safehinge Group Ltd and Melrose Rugby Limited and is a director of RITF Consultants Limited. George has extensive boardroom experience in private and public technology companies in both an executive and non-executive capacity. George was until 2019 non-executive Chair of AIM-listed Craneware plc (AIM: CRW), the market leader in software and supporting services for healthcare providers in the US and in 2020 he resigned as a non-executive director of Indigovision Group plc following its acquisition by Motorola. From 2000 to 2007 he was Chief Financial Officer of Wolfson Microelectronics plc, then a leading UK-listed global provider of high performance mixed-signal semiconductors to the consumer electronics industry.

**Tommy Cook**
Chief Executive Officer

Tommy is the founder and CEO of Calnex Solutions. He has over 39 years' experience in telecoms test and measurement ranging from hands-on design and programme management of R&D projects through to leading business teams within the market segments in which Calnex currently operates. Tommy has participated in a number of Industry Standards forums during his career, including the ITU-T and MEF groups, and presented technical and market insight papers in industry forums.

**Ashleigh Greenan**
Chief Financial Officer

Ashleigh qualified as a chartered accountant with Deloitte before spending 5 years at KPMG in transaction services. She has held senior finance and corporate development roles at Exova Group plc, the UK materials testing business, before joining Parsons Peebles Group Limited, where she was a director of a number of group companies and held the role of Chief Financial Officer until she joined Calnex in early 2020.

**Ann Budge**
Non-Executive Director

Ann has been a non-executive director of Calnex since 2009. Ann co-founded IT Services company Newell & Budge in 1985, which successfully grew to a staff of over 1,000 across six regional offices in the UK, with a Development Centre in New Delhi, prior to its sale to Sopra Group in 2005. Since then, Ann has held a number of non-executive roles and has been active in the angel investment community. She is currently Chair of Heart of Midlothian Football Club.

## Graeme Bissett
**Independent Non-Executive Director**

Graeme is an experienced corporate financier and qualified chartered accountant, having previously been a partner with Arthur Andersen LLP and finance director of international groups. He is currently a non-executive director of Smart Metering Systems plc, Aberforth Split Level Income Trust plc and Cruden Holdings Ltd. Graeme was formerly Chair of Macfarlane Group PLC and acted as a non-executive director of businesses including Interbulk Group plc and Belhaven Group plc. He currently undertakes a number of pro bono appointments including as Trustee at Citizens Advice Scotland and the Entrepreneurial Scotland Foundation.

## Margaret Rice-Jones
**Independent Non-Executive Director**

Margaret has over 20 years' experience at Board level in public and private software and technology companies. Margaret's current roles include acting as Senior Independent Director at main market-listed De La Rue plc, Chair at Origami Energy Limited, a VC-backed energy-focused technology business, and non-executive director at Holiday Extras Investments Limited. Previously, Margaret was Senior Independent Director of Xaar plc and chaired private companies Skyscanner Limited and Penguin Portals Limited until they were sold for £1.4bn and £509m, respectively.

## Stephen Davidson
**Independent Non-Executive Director**

Stephen Davidson is an accomplished director of both public and private companies, with more than 20 years' PLC-board experience. He is currently a Non-executive Director at main market-listed Informa plc AIM-listed analytics company Actual Experience plc, JSE-listed Datatec plc and MCB Group Limited. Stephen was previously Non-executive Director at Rosenblatt Group plc, Restore plc, Jaywing plc, Inmarsat plc and MECOM plc. In his earlier career Stephen was Chief Financial Officer and then Chief Executive Officer of Telewest Communications plc and Vice Chairman of Investment Banking at WestLB Panmure.

> **The Board is committed to maintaining high standards of corporate governance and considers that a strong corporate governance foundation is essential in delivering shareholder value."**
>
> **George Elliott**
> Chairman of the Board

**Introduction**
I have pleasure in introducing Calnex's Corporate Governance Statement.

In accordance with the London Stock Exchange AIM Rules for Companies ('AIM Rules'), the Board has chosen to apply the Quoted Companies Alliance's ('QCA') Corporate Governance Code 2018 (the 'QCA Code'). The Board chose to apply this code as it believes that it is more suitable for small and mid-size companies.

The Board is committed to maintaining high standards of corporate governance and considers that a strong corporate governance foundation is essential in delivering shareholder value. The Board has governance procedures and policies that are considered appropriate to the nature and size of the Group and its subsidiaries.

The QCA Code is constructed around ten broad principles. The QCA has stated what it considers to be appropriate arrangements for small and mid-size companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures.

Set out below is an explanation of how the Group currently complies with the principles of the QCA Code.

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

The Board conducts an annual review of the Group's strategy, alongside regular discussions on progress against the business' strategic aims.

The Group's business model and strategy and key developments during the year are discussed in more detail on pages 8 to 11 of the Company Overview.

**Principle 2: Seek to understand and meet shareholder needs and expectations**

The Group is committed to open communication with all its shareholders on the business' performance and strategy and maintaining positive relationships with shareholders is important to the Board.

The Chair of the Board is responsible for ensuring that appropriate methods of communication are established between the executive directors and shareholders, ensuring shareholders' views and feedback are shared with the Board.

The Chief Executive Officer and Chief Financial Officer meet with the Group's major shareholders on investor roadshows in the days following the release of the Group's interim and annual results, to discuss the Group's performance and to understand shareholder needs and expectations. Due to the ongoing impact of the COVID-19 pandemic this year, the majority of investor roadshow meetings have been held online, with some face to face meetings returning as a result of some COVID-19 restrictions easing.

The Group ensures that any price sensitive information is released to all shareholders, institutional and private, at the same time in accordance with London Stock Exchange requirements. Updates to the market are published via the regulatory news service ("RNS") on matters of a material substance and/or a regulatory nature. In conjunction with the Group's brokers and public relations advisers, RNS announcements will be distributed in a timely fashion to ensure shareholders are able to access material information on the Group's progress.

The Group's website (www.calnexsol.com) has a section for investors, which is kept updated to contain all publicly available financial information and news on the Group. Our shareholders also have the opportunity to ask questions through a dedicated investor relations email address throughout the year. The Group engages the services of a financial PR consultancy, which acts as another point of contact for investors.

The Annual General Meeting is an important opportunity for the Board to engage with shareholders, particularly retail investors. The Notice of AGM is sent to shareholders at least 21 days before the meeting. The Chair of the Board, together with all the other directors, whenever possible, attend the AGM and are available to answer shareholder questions.

**Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long term success**

Refer to the s172 Statement on pages 38 to 41 and the Strategic report on pages 17 and 18 for further details on how we engage with our stakeholders.

**Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation**

A summary of the Group's risk management framework and the principal risks and uncertainties relating to Calnex and its business are on pages 32 to 37 of the Strategic Report.

### Principle 5: Maintain the board as a well-functioning, balanced team led by the chair

The Company is controlled by the Board of Directors.

A Statement of Directors' Responsibilities is set out on page 64 and the experience of the Board is set out on pages 42 and 43.

**Board composition**

The Board consists of seven directors, two of whom are full time executives and five are part time non-executives. The Group considers four of the non-executive directors, George Elliott (Chair), Graeme Bissett, Margaret-Rice Jones and Stephen Davidson to be independent. The Board considers that one of the non-executive directors, Ann Budge, is not independent for the purposes of these guidelines due to her length of service on the Board and her significant shareholding in the Group.

The Board is satisfied with the balance between executive and non-executive directors. The Board considers that its composition is appropriate in view of the size and requirements of the Group's business and the need to maintain a practical balance between executive and non-executive directors. The executive directors are directly responsible for running the business operations and the non-executive directors are responsible for bringing independent judgement and scrutiny to decisions taken by the Board.

The Board is highly committed and experienced and is supported by qualified executive and senior management teams. The executive management team includes two members of the Board, the Chief Executive Officer and the Chief Financial Officer.

Before undertaking the appointment of a non-executive director of the Board, the Chair establishes that the prospective director can give the time and commitment necessary to fulfil their duties, in terms of availability both to prepare for and attend meetings and to discuss matters at other times.

**Board meetings**

Board meetings are planned to occur not less than seven times a year with additional meetings as and when required. The Chair is responsible for ensuring that directors receive accurate, sufficient and timely information.

The Company Secretary compiles the Board and committee papers which are circulated to directors prior to meetings. The Company Secretary provides minutes of each meeting and every director is aware of the right to have any concerns minuted and to seek independent advice at the Group's expense where appropriate. Information on the Group's operational and financial performance is circulated to the directors in advance of meetings.

The business reports monthly on its headline performance against its agreed budget and market consensus, and the Board evaluates any significant variances. Senior executives below Board level attend Board meetings as appropriate to present business updates.

**Principle 5: Maintain the board as a well-functioning, balanced team led by the chair** continued

Meetings of the Board and its committees held in the year to 31 March 2022 and the attendance of the directors are summarised below:

| Attendance of Scheduled Meetings in FY22 | Board | Audit Committee | Remuneration Committee | AIM Compliance Committee | Nomination Committee |
|---|---|---|---|---|---|
| Minimum requirement for meetings | 7 | 3 | 3 | 2 | 1 |
| Meetings held in year | 11 | 3 | 3 | 2 | 1 |
| George Elliott | 11 | 3 | 3 | 2 | 1 |
| Tommy Cook | 11 | 3 | 3 | 2 | 1 |
| Ashleigh Greenan | 11 | 3 | 3 | 2 | – |
| Graeme Bissett | 11 | 3 | 3 | 2 | 1 |
| Ann Budge | 11 | 3 | 3 | 2 | 1 |
| Margaret-Rice Jones[1] | 2 | 1 | 1 | – | – |
| Stephen Davidson[1] | 2 | 1 | 1 | – | – |

1 Margaret Rice Jones and Stephen Davidson were both appointed as a directors on 10 January 2022.

**Roles and responsibilities of the Chair and the Executive Directors**
The role of the Chair and CEO are split in accordance with best practice.

The Chair has the responsibility of ensuring that the Board discharges its responsibilities and is also responsible for facilitating full and constructive contributions from each member of the Board in determination of the Group's strategy and overall commercial objectives. The Chair is responsible for overseeing the running of the Board, ensuring that no individual or group dominates the Board's decision-making and ensuring the non-executive directors are properly briefed on matters. The Chair has overall responsibility for corporate governance matters in the Group and chairs the Nomination Committee.

The Board retains ultimate accountability for good governance and is responsible for monitoring the activities of the executive management team.

The CEO manages the day-to-day business activities of the Group and the executive management team ensuring that strategic and commercial objectives are met. He is accountable to the Board for the operational and financial performance of the business. The CFO is responsible for the Group's financial controls and reporting to the Board.

The executive management team which comprises representatives from sales, operations, R&D, finance and HR reports to and regularly engages with the CEO. The day-to-day operations of the Group are managed by the executive management team.

**Principle 5: Maintain the board as a well-functioning, balanced team led by the chair** continued

**Board Committees**

The Group has established Audit, Remuneration, Nomination and AIM Compliance committees with clearly defined terms of reference which are set by the Board:

- The Audit Committee has the primary responsibility of monitoring the quality of internal controls and ensuring that the financial performance of Calnex is properly measured and reported on. The Committee also considers the appropriateness of the Group's accounting policies on an annual basis. The Committee liaises with Group's auditors on future changes to such accounting policies. Further details are included in the Audit Committee Report at pages 56 to 58.
- The Remuneration Committee reviews the performance of the executive directors and makes recommendations to the Board on matters relating to their remuneration and terms of service. Further details are included in the Remuneration Committee Report at pages 52 to 55.
- The Nomination Committee regularly reviews the structure, size and composition of the Board. In July 2021 the Nomination Committee proposed that the size of the Board should be increased. In January 2022 Margaret Rice-Jones and Stephen Davidson were appointed non-executive directors following a comprehensive search with an external recruitment firm.
- The AIM Compliance Committee is responsible for ensuring that the Group has in place at all times appropriate procedures, resources and controls to enable it to comply with the AIM Rules. Further details are included in the AIM Compliance Committee Report at page 60.

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

Each member of the Board brings different skills and experience to the Board and the Board Committees. The Board is satisfied that there is sufficient diversity in the Board structure to bring a balance of skills, experience, independence and knowledge to the Group. More detail on the biographies of the Board of Directors can be found on pages 42 and 43.

The Board conducts an annual review of its composition to ensure there is adequate diversity to allow for its proper functioning and that the Board works effectively together as a unit. When a new appointment to the Board is to be made, consideration will be given to the particular skills, knowledge and experience that a potential new member could add to the existing Board composition.

The non-executive directors hold senior positions with other companies ensuring that their knowledge is continuously refreshed. Specific training will be provided to the Board by the Group when required to support the directors' existing skillsets.

The Board is provided with specific training on the AIM Rules for Companies by its Nominated Adviser on an annual basis. The Company's Nominated Adviser is available to provide guidance and additional training to the Board on specific regulatory matters as required.

**Principle 7: Evaluate board performance based on clear and relevant objectives, seeking continuous improvement**

The effectiveness of the Board, individual directors and senior management is evaluated on an ongoing basis as part of the Board's ongoing review of the business.

On an annual basis, the Chair leads the Board through a formal self-evaluation of the performance of the Board, its Committees and the individual directors, highlighting relevant areas for improvement. A detailed questionnaire is completed by each director, with the results collected by the Chair and discussed by the Board. The most recent evaluation during the year concluded that, although the Board and the Committees performances had been satisfactory, the Board would be strengthened by adding two further non-executive directors with relevant industry and or market experience to complement the current Board's skills and experience. As a result, in January 2022 Margaret Rice-Jones and Stephen Davidson were appointed non-executive directors.

The Board will execute an external review of its performance at an appropriate time in the future.

The Board's effectiveness is also assessed in an informal manner by the Chair on an on-going basis. The Chair has been tasked with assessing the individual contributions of each of the members of the team to ensure that their contribution is relevant and effective, they are committed and, where relevant, can continue to be considered independent.

The performance of the Chair is reviewed annually by means of a survey led by the Audit Committee Chair who canvasses views from directors and key advisers.

The Nomination Committee is responsible for giving full consideration to succession planning and advising the Board accordingly.

**Principle 8: Promote a corporate culture that is based on ethical values and behaviours**

The Board places great emphasis on promoting a corporate culture that reflects the Group's ethical principles and behaviours and it seeks to embed these values across the business.

As the Group works with an international team, considerable importance is placed on a culture of inclusivity and sensitive communication, thereby ensuring that individual cultural values and languages are respected.

The Group encourages innovation, has flat management structures and encourages a culture of continuous improvement. This helps to ensure that communication and understanding flows well within the Group and is aligned with the Group's overall strategy and objectives.

The Board has implemented formal HR policies and procedures that set out details and guidelines on the culture of the Group and how this should be reflected in employees' individual conduct.

The culture is monitored through the annual employee appraisal process and through the use of a satisfaction and engagement survey which is performed annually. The executive team reviews the key findings of the survey and determines whether any action is required.

The Group has adopted, and will operate as applicable, a code for Directors' and applicable employees' dealings in securities in accordance with Rule 21 of the AIM Rules for Companies.

All Group policies are available to the staff through the Group SharePoint.

**Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision making by the Board**

The Board has overall responsibility for promoting the success of the Group.

Further detail on Board and Committee roles and responsibilities are described above under 'Principle 5: Maintain the board as a well-functioning, balanced team led by the chair'.

The Board has a formal schedule of matters reserved to it, including the approval of annual financial plans and the review of performance against these plans, the Group's strategy and objectives, and the treasury and risk management policies.

The Board continually monitors the governance framework as the Group grows and will assess the evolution of the framework on a regular basis to ensure the governance structures and processes remain fit for purpose.

Reports of the Board's Audit, Remuneration, AIM Compliance and Nomination Committees can be found at pages 52 to 60 of the Governance section of this Annual Report.

**Principle 10: Communicate how the company is performing by maintaining a dialogue with shareholders and other relevant stakeholders**

The Group places a high priority on regular communications with its various stakeholder groups and aims to ensure that all communications concerning the Group's activities are fair, balanced and understandable.

Communications with shareholders and communications with other relevant stakeholders are described in detail above under 'Principle 2: Seek to understand and meet shareholder needs and expectations' and 'Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success' respectively.

The Group's website is regularly updated with announcements, details of investor presentations and events as well as the Group's financial reports. AGM notices, outcomes of AGM votes and other governance materials are also available on the website.

**George Elliott**
Chairman of the Board
23 May 2022

"

**This report outlines the Group's remuneration policy for its directors and shows how that policy was applied during the year."**

**Graeme Bissett**
Chair of the AIM Compliance Committee

On behalf of the Board, I am pleased to present Calnex's Remuneration Committee Report for the year ended 31 March 2022.

This report outlines the Group's remuneration policy for its directors and shows how that policy was applied during the year. As the Company is quoted on the AIM Market of the London Stock Exchange ('AIM'), Calnex is not required to comply with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and is under no obligation to prepare a directors' remuneration report. This section of the annual report has been prepared on a voluntary basis and fulfils the relevant requirements of Rule 19 of the AIM Rules for Companies.

**Members of the Remuneration Committee**
The Remuneration Committee comprised the non-executive directors throughout the year or from date of appointment as appropriate and is chaired by Graeme Bissett. The Committee invites the executive directors to attend its meetings when appropriate. In exercising this role, the directors have regard to the recommendations set out in the QCA Code.

No director or senior manager is permitted to be involved in any decision as to his/her own remuneration.

The non-executive directors of the Committee have no personal financial interest, other than as shareholders, in the matters to be decided. They have no conflicts of interest arising from cross-directorships or from being involved in the day-to-day business of the Group.

**Roles and responsibilities**
The duties of the Remuneration Committee are set out in its terms of reference, which are available on the Company's website. The Remuneration Committee meets at least three times a year and its main responsibilities are:

- to ensure that the Company's remuneration policy attracts and retains employees with the right skills and expertise needed to enable the Company to achieve its goals and strategies;
- to ensure that fair and competitive compensation, with appropriate performance incentives, is awarded;
- to review the performance of the executive directors and make recommendations to the Board on matters relating to their remuneration and terms of service;

- to make recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any employee share option scheme or equity incentive plans in operation.
- for all long term incentive plans, to determine each year the overall number of awards and the individual awards to executive directors and senior management;
- to review and approve Group-wide salary increases and discretionary employee profit share payments; and
- to review any major changes in employee benefits structures throughout the Group.

The Committee met three times during the year to 31 March 2022. Activities included review and approval of:
- the executive directors' bonus plan structure;
- the executive directors' remuneration for the year ended 31 March 2023;
- the executive management team bonus plan structure;
- the structure of the employee profit share calculation; and
- share option awards and other equity related incentive schemes.

The Remuneration Committee also met just after the year end to approve the final calculations for executive director and management team bonuses, together with the final calculations for the employee profit share bonus paid in April. The members' attendance record at Committee meetings during the financial year is set out in the Corporate Governance report at page 47.

The Company allows executive directors to hold external directorships subject to agreement by the Chair on a case-by-case basis and, at the discretion of the Committee, to retain the fees received from those roles.

**Directors' Remuneration for the year ended 31 March 2022 (unaudited)**
The table below sets out the detailed emoluments of each director who served during the year:

| | 2022 | | | | | 2021 |
|---|---|---|---|---|---|---|
| | Salary/fees £000 | Benefits in kind £000 | Bonus £000 | Pension £000 | Total £000 | Total £000 |
| **Executive directors** | | | | | | |
| Tommy Cook | 145 | 2 | 108 | – | 255 | 185 |
| Ashleigh Greenan[1,2] | 121 | 1 | 87 | 6 | 215 | 153 |
| Anand Ram[3] | – | – | – | – | – | 163 |
| **Non-executive directors** | | | | | | |
| George Elliott | 65 | – | – | – | 65 | 63 |
| Graeme Bissett[4] | 50 | – | – | – | 50 | 37 |
| Ann Budge[5] | 40 | – | – | – | 40 | 33 |
| Margaret Rice-Jones[6] | 10 | – | – | – | 10 | – |
| Stephen Davidson[6] | 10 | – | – | – | 10 | – |
| John McElroy[3] | – | – | – | – | – | 9 |
| **Total** | 441 | 3 | 195 | 6 | 645 | 643 |

1 Salary figures for Ashleigh Greenan include £5,000 car allowance.
2 Ashleigh Greenan's remuneration is from the date of appointment as a director on 15 May 2020.
3 Anand Ram and John McElroy resigned on 18 September 2020 before the Company's admission to Aim on 5 October 2020. Their remuneration is to the date of their resignation.
4 Graeme Bissett's remuneration is from the date of appointment as a director on 1 May 2020.
5 Pre IPO, Ann Budge was previously remunerated by Discovery Investments, to which Calnex paid an annual fee.
6 Margaret Rice Jones and Stephen Davidson's remuneration is from the date of appointment as a director on 10 January 2022.

The above table does not include the value of share options held by the directors, details of which are set out below.

The main components of executive directors' remuneration comprise:
- Basic salary
- Performance-related bonus
- Defined contribution to personal pension plan
- Other benefits such as car allowances, medical and life assurance

- Long term incentives (share option scheme)
- Share Incentive Plan participation (under HMRC rules, the SIP has to be open to all employees, including executive directors)

**Basic salaries**
The basic salary of the executive directors is reviewed annually by the Remuneration Committee, with changes, if any, taking effect on 1 April of each year, to take account of market and other factors.

**Performance-related bonus**
The executive directors participate in a bonus plan which is linked to the achievement of financial and individual performance targets set by the Remuneration Committee. The year to 31 March 2021 was a transitional year for the Company, with its Admission to AIM in October 2020. As a result, the bonus arrangements for the executive directors reflect a transition from previous arrangements as a limited company to those more commonly found in public companies and which meet corporate governance guidelines.

Accordingly, the bonus opportunity has been phased to a maximum of 100% of basic salary over a three year period from 31 March 2020 to 31 March 2023.

In the year to 31 March 2022, the bonus plan was structured to pay a maximum of 70% of annual basic salary for the Chief Executive Officer and the Chief Financial Officer. In the year ended 31 March 2023, the bonus opportunity for each executive director will be increased to 100% of annual salary.

Bonuses payable are subject to the discretion of the Remuneration Committee after considering an overall view of the Group's performances and its assessment of financial and personal performance.

In the year ended 31 March 2022, performance against targets resulted in a bonus award of 70% of salary for the Chief Executive Officer and 70% of salary for the Chief Financial Officer.

**Pension contributions**
The Chief Executive Officer does not participate in the Company pension scheme. A contribution of up to 5% per annum of basic salary is paid into the scheme by the Company, on behalf of the Chief Financial Officer.

**Other benefits**
The Company pays for private healthcare for each executive director and 50% towards the cost of private healthcare for their immediate family, together with life assurance scheme cover. The Company provides a company car allowance for the Chief Executive Officer and Chief Financial Officer.

**Equity incentive schemes**
The Company has long-term incentive schemes in place designed to provide the executive directors and other senior management with share options vesting equally after three, four and five years based on performance of the Company's ordinary share price. These long-term incentives are provided through the operation of the following arrangements:
- Calnex Solutions plc EMI Share Option Plan (EMI Plan), which allows tax advantaged options to be granted over the Company's shares to selected employees of the Group (including executive directors) based in the UK.
- USA Incentive Stock Option Addendum to the EMI Plan (USA ISO Addendum): The EMI plan permits the Board to establish schedules to the Plan in order to adapt the Plan to other jurisdictions covering overseas employees and as a result, the Board has authorised an addendum in order to adapt the Plan to the tax laws of the United States, which allows tax advantaged options to be granted over the Company's shares to selected employees in the USA;
- Calnex Solutions plc Unapproved Share Option Plan (Unapproved Plan) which enables non-tax advantaged options to be granted to selected employees and contractors worldwide; and
- Calnex Solutions plc Notional Share Option Plan (Notional Plan) which enables non-tax advantaged shadow equity interests to be granted to selected employees and contractors worldwide, which are settled by way of a cash payment.

The price per share payable on exercise of any share options will normally be equal to the market value of a share on the date they were originally granted. The Committee continues to monitor the effectiveness of equity incentive arrangements and will consider new arrangements when appropriate.

Details of options for directors who were in office at 31 March 2022 are as follows:

| | Type | 2021<br>No. of shares under option | Exercise price | Date of grant |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Ashleigh Greenan | EMI Plan | 500,000 | 48p | 05/10/2020 |

One third of the share options awarded vests after three years; the next third vests after four years; the remaining third vests after five years. No performance conditions are applicable to options under the EMI Plan other than continued employment.

**Executive directors' service contracts**

The executive directors have entered into service contracts with the Group that are terminable by either party on no less than six months' notice.

**Non-executive directors**

The non-executive directors do not participate in performance related bonus or share based incentive arrangements. Each of the non-executive directors has a letter of appointment stating their annual fee. The level of fees for non-executive directors (other than the Chair) is determined by the Chair and the executive directors. The Chairman's fees are determined by the Committee members other than the Chair. The appointment of non-executive directors may be terminated on one months' written notice at any time.

**Share price information**

The market price of the Calnex Solutions plc ordinary shares at 31 March 2022 was 150 pence and the range during the year was 92 pence to 156 pence.

**Calnex Solutions plc Employee Share Incentive Plan (SIP)**

The Company has put in place a Share Incentive Plan (SIP), an HMRC approved all-employee plan that offers the Company the ability to award equity to employees in a flexible and tax-advantaged manner. The SIP is open to all UK resident employees, including executive directors.

Employees can acquire Ordinary Shares ("Partnership Shares") up to the lower of £1,800 or 10% of their salary in any tax year, and will be awarded one additional Ordinary Share ("Matching Shares") by the Company for every Ordinary Share they acquire. The Company can also award up to £3,600 worth of free Ordinary Shares ("Free Shares") in any tax year per employee. Dividends paid on SIP shares can be paid out in cash or re-invested to purchase further SIP shares ("Dividend Shares").

Free and Matching Shares are subject to a holding period of three years and employees cannot remove them from the SIP during this period whilst they remain employed by the Company. These shares are held in trust in the name of the individual. Under the terms of this scheme, the Free and Matching Shares will be forfeited if the participant leaves the employment of the Company within this holding period unless the employee is a good leaver. If the employee withdraws any Partnership Shares within the same holding period, they will forfeit the corresponding Matching Shares unless they are a good leaver.

Once SIP shares have been held in the SIP for 5 years from the date of award there is no income tax or NICs to pay. Any increase in value whilst shares remain in the SIP is not subject to Capital Gains Tax.

Under the SIP Plan, shares may only be awarded to UK based employees of the Group. As the Board also wanted to have the discretion to grant awards to contractors and overseas employees, it was necessary to set up the separate Notional Plan. This Plan acts as a non-tax advantaged shadow equity interest plan to the SIP, mirroring the SIP awards for overseas employees and contractors with equity ownership being replaced by cash settlement.

**Directors' share interests**

The directors' shareholdings in the Company are shown in the Directors' Report on page 62.

**Graeme Bissett**
Chair of Remuneration Committee
23 May 2022

# Audit Committee Report

On behalf of the Board, I am pleased to present Calnex's Audit Committee Report for the year ended 31 March 2022.

The Audit Committee is responsible for reviewing and monitoring the effectiveness of the Group's financial reporting and internal control policies, compliance with corporate governance and procedures for the identification, assessment, and reporting of risk. It reviews reports from the executive management team and external auditors relating to the interim and annual accounts and the Group's accounting and internal control systems. The Audit Committee is also responsible for advising on the appointment of and overseeing the relationship with the external auditor.

**Members of the Audit Committee**
The Audit Committee comprised the non-executive directors throughout the year or from date of appointment as appropriate and is chaired by Graeme Bissett. The Committee invites the external auditor, executive directors and other senior managers to attend its meetings when appropriate.

The Audit Committee is considered to have sufficient, recent and relevant financial experience to discharge its functions.

**Roles and responsibilities**
The duties of the Audit Committee are set out in its terms of reference, which are available on the Company's website. The Committee's key functions include reviewing and advising the Board on:
- the integrity of the financial statements of the Group, including its annual and interim reports, preliminary results announcements and any other formal announcements relating to its financial performance;
- compliance with accounting standards and legal and regulatory requirements;
- decisions of judgement and risk affecting financial reporting;
- disclosures in the interim and annual report and financial statements;
- any change in accounting policies;
- the effectiveness of the Group's financial and internal controls;
- the Group's risk management processes, including principal risks and internal control findings highlighted by management or external audit;
- the appointment and remuneration of the external auditor;
- any significant concerns of the external auditor about the conduct, results or overall outcome of the annual audit of the Group; and
- any matters that may significantly affect the independence of the external auditor

The ultimate responsibility for reviewing and approving the Annual Report and Accounts and Interim Report remains with the Board.

The Audit Committee has committed to meet no less than three times in each financial year. The Audit Committee met three times in the year ended 31 March 2022. The members' attendance record at Committee meetings during the year is set out in the Corporate Governance report at page 47.

Activities in the year ended 31 March 2022 included:
- the review and approval of the Group's Annual Report and Accounts for the year ended 31 March 2021;
- the review and approval of the Group's September 2021 Interim Report;
- the review and approval of the audit plan presented by the Group's auditors for the year ended 31 March 2022;
- the review of the independence of the Group's external auditors;
- the consideration of the reports from management and external auditors identifying any accounting or judgemental issues requiring the Board's attention; and
- the monitoring of internal controls and reviewing the Group's risk management framework

The Audit Committee also met after the year end to approve the Group's Annual Report and Accounts for the year ended 31 March 2022. The Audit Committee reviewed and was satisfied that the judgements exercised by management on material items contained within the Group's Annual Report and Accounts are reasonable.

Significant areas considered by the Committee in relation to the 2022 financial statements are set out below:

| | |
|---|---|
| **Carrying value and capitalisation of intangible assets** | The group had intangible assets, comprising of intellectual property and development costs, with a carrying value of £8.4m at the balance sheet date. These assets inherently carry a greater risk of impairment as their valuation is subject to management estimation.<br><br>£3.9m of expenditure has been capitalised as development costs in the year. Conditions for capitalisation are prescribed by IAS 38 Intangible Assets and the satisfaction of these criteria is subject to management judgement.<br><br>The brought forward net book value of intangible assets in respect of development costs was £7.3m and closing net book value was £8.3m as at the end of FY22. This value, including costs capitalised in the year, is allocated to products using the Group's R&D work planner, based mainly on the monthly number of R&D employees working on each project, together with an assessment of forecasted sales for each product.<br><br>There are no development costs included within the historical balance for projects that were unsuccessful or cancelled.<br><br>During the year, a review of the brought forward development costs has resulted in an elimination of costs and amortisation of £1.2m, resulting in a net book value impact of £nil. This reflects removal of fully amortised aged spend on product features that are now considered to be superseded by current product developments.<br><br>There have been no indicators of impairment of this balance in the year. |
| **Share-based payments** | In the year to 31 March 2022, 1,917,000 new share options were awarded vesting over 3-5 year periods. This, in addition to the share options awarded in the prior year of 2,650,000, resulted in a charge of £0.3m. The fair value assessment on these options was calculated using the Black-Scholes Model. Key assumptions used in the model included:<br>• Expected market volatility of 77-105%. This was determined by calculating the historical volatility of the Group's share price over the previous year, which the Board considers to be representative of future volatility;<br>• Risk free rate of 0.02%; and<br>• Dividend yield of 1%. |

**External auditors**

The Company engaged RSM UK Audit LLP ("RSM") to act as external auditors for the year to 31 March 2022. RSM have been the Group's external auditors since September 2020. RSM is invited to attend Committee meetings when appropriate. The Audit Committee has unrestricted access to the external auditors and will also meet with them without management in attendance.

The external auditors prepare an audit plan which details the scope, materiality, key areas of focus and the timetable for audit. This plan is reviewed and agreed in advance by the Audit Committee. Following the completion of the audit, the external auditors present their findings to the Audit Committee for discussion.

**Internal audit**

The Audit Committee has considered the Group's internal control and risk management policies and systems, their effectiveness, and the requirements for an internal audit function in the context of the Group's overall risk management system. The Audit Committee is satisfied that the Group does not currently require an internal audit function, however, it will continue to review the situation.

**Whistleblowing**

The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. During the year, there were no incidents for consideration.

**Graeme Bissett**
Chair of Audit Committee
23 May 2022

# Nomination Committee Report

On behalf of the Board, I am pleased to present Calnex's Nomination Committee Report for the year ended 31 March 2022.

The Nomination Committee will regularly review the structure, size and composition of the Board and will also consider the selection and re-appointment of directors.

**Members of the Nomination Committee**
The Nomination Committee is chaired by George Elliott and has Graeme Bissett, Ann Budge and Tommy Cook as members.

**Roles and responsibilities**
The duties of the Nomination Committee are set out in its terms of reference, which are available on the Company's website. The Committee's duties include:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board, together with Board and senior management succession planning;

- recommending to the Board any changes required;
- identifying and nominating candidates to fill Board vacancies;
- reviewing the results of the Board performance evaluation process; and
- making recommendations to the Board concerning suitable candidates for the membership of the Board's Committees and the re-election of directors at the annual general meeting.

The Committee meets at least once a year and otherwise as required. It reports to the Board on how it has discharged its responsibilities. The members' attendance record at Committee meetings during the financial year is set out in the Corporate Governance report at page 47.

The Nomination Committee met on one occasion during the financial year ended 31 March 2022.

Activities in the year ended 31 March 2022 included:

- a review of the balance of skills, knowledge and experience of the Board together with the size, structure and composition of the Board; and
- Board and senior management succession planning, resulting in the appointment in January 2022 of two additional Non-Executive Directors of the Company, Margaret Rice-Jones and Stephen Davidson

The Nomination Committee has a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. The process involves the Nomination Committee and Board interviewing suitable candidates who are proposed by an external search company. Careful consideration is given to ensure appointees have enough time available to devote to the role and that the balance of skills, knowledge and experience on the Board is maintained.

**George Elliott**
Chair of the Nomination Committee
23 May 2022

# AIM Compliance Committee Report

On behalf of the Board, I am pleased to present Calnex's AIM Compliance Committee Report for the year ended 31 March 2022.

Calnex Solutions plc is quoted on AIM and as a result the AIM Compliance Committee is responsible for ensuring that the Company has in place at all times sufficient procedures, resources and controls to enable it to comply with the AIM Rules.

**Members of the AIM Compliance Committee**
The AIM Compliance Committee is chaired by Graeme Bissett and has George Elliott and Ashleigh Greenan as members.

**AIM Rule Compliance Report**
The AIM Compliance Committee can confirm that the Group has complied with AIM Rule 31 which requires the following:

- Have in place sufficient procedures, resources and controls to enable its compliance with the AIM Rules;
- Seek advice from its Nominated Advisor ("Nomad") regarding its compliance with the Rules whenever appropriate and take that advice into account;
- Provide the Company's Nomad with any information it reasonably requests in order for the Nomad to carry out its responsibilities under the AIM Rules for Nominated Advisors, including any proposed changes to the Board and provision of draft notifications in advance;
- Ensure that each of the Group's directors accepts full responsibility, collectively and individually, for compliance with the AIM rules; and
- Ensure that each Director discloses without delay all information which the Group needs in order to comply with AIM Rule 17 (Disclosure of Miscellaneous Information) insofar as that information is known to the director or could with reasonable diligence be ascertained by the Director.

**Meetings**
The duties of the AIM Compliance Committee are set out in its terms of reference, which are available on the Company's website.

The Committee meets at least twice a year and otherwise as required. It reports to the Board on how it has discharged its responsibilities. The members' attendance record at Committee meetings during the year is set out in the Corporate Governance report at page 47.

The Committee met twice in the year to 31 March 2022.

**Graeme Bissett**
Chair of the AIM Compliance Committee
23 May 2022

# Directors' Report

The Directors present the Group's annual report and the audited consolidated financial statements for the year ended 31 March 2022.

### Principal activity

The principal activity of the Group is the design, production and marketing of test and measurement instrumentation and solutions, enabling its customers to validate the performance of critical infrastructure associated with telecoms networks, enterprise networks and data centres. A detailed explanation of the Group's principal activities and business model can be found in the Company Overview section at pages 1 to 9.

### Results and Dividends

The Group's profit for the year after tax was £4.5m (FY21: £3.5m).

The Company paid a maiden interim dividend of 0.28 pence per ordinary share on 17 December 2021 to those shareholders on the register as at 3 December 2021 (FY21 Interim dividend: 0p). A final dividend of 0.56 pence per share is proposed by the Board to be paid after approval by shareholders at Company's AGM in August 2022.

### Directors and their interests

The directors, who held office during the year ended 31 March 2022 and up to the date of approval of these financial statements, are as follows:

| Director | Board title | Date of appointment |
|---|---|---|
| George Elliott | Non-Executive Chairman | 1 October 2013 |
| Tommy Cook | Chief Executive Officer | 27 March 2006 |
| Ashleigh Greenan | Chief Financial Officer | 15 May 2020 |
| Ann Budge | Non-Executive Director | 1 April 2009 |
| Graeme Bissett | Non-Executive Director | 1 May 2020 |
| Margaret Rice-Jones | Non-Executive Director | 10 January 2022 |
| Stephen Davidson | Non-Executive Director | 10 January 2022 |

Biographical details of persons currently serving as directors are set out on page 42 and 43. The directors who held office at 31 March 2022 had the following interests in the ordinary shares in the capital of the Company:

| Director | Ordinary shares No. | Ordinary share options No. |
|---|---|---|
| George Elliott | 950,018 | – |
| Tommy Cook | 18,377,764 | – |
| Ashleigh Greenan | 235,926 | 500,000 |
| Ann Budge | 2,000,000 | – |
| Graeme Bissett | 120,614 | – |

### Financial risk management objectives and policies

Details of the Group's financial risk management objectives and policies are set out in note 22 to the consolidated financial statements. The key non-financial risks that the directors consider could have a material impact on the business are set out on pages 32 to 37 of the Strategic Report.

### Research and development

The Group is highly focused on R&D, IP and product development to ensure its products remain at the forefront of their markets. Refer to the Market Overview section on pages 4 to 5 of the Strategic Report for more information. The total capitalised development expenditure for research and development in the year was £3.9m (FY20: £3.3m), and total amortisation was £2.9m in the year (FY20: £2.5m) in the consolidated income statement. Details of the Group's policy for the recognition of expenditure on research and development is set out in note 3 to the consolidated financial statements.

### Post Balance Sheet Events

On 11 April 2022, the Group acquired the entire share capital of iTrinegy Ltd and its wholly owned subsidiary company iTrinegy, Inc on a 'cash free, debt free' basis. The consideration comprises an initial cash payment of £2.5m, with up to a further £1.0m potentially payable in a combination of new ordinary shares in Calnex and cash (the "Earn-out Payment"). The Earn-out Payment is subject to the achievement of certain sales targets from iTrinegy products in the year to 31 March 2024. A maximum of 322,579 new shares will be issued under the Earn-out Payment. The initial cash payment of £2.5m has been financed entirely from available cash resources.

### Future Developments

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 32 to 37.

### Insurance for Directors and Officers

The Company has agreed to indemnify its directors against third party claims which may be brought against them and has put in place a Directors' and Officers' insurance policy.

### Substantial shareholdings

At 31 March 2022 the Company is aware of the following interests in 3% or more of the issued ordinary share capital in the Company:

| Shareholder | Shares | % holding |
|---|---|---|
| Thomas (Tommy) Cook (CEO) | 18,377,764 | 21.0% |
| BGF Investment Management Limited | 13,125,000 | 15.0% |
| Close Brothers Group | 7,912,957 | 9.0% |
| Scottish Enterprise | 7,860,693 | 9.0% |
| Sanford DeLand Asset Mgt | 3,200,000 | 3.7% |
| Liontrust Asset Mgt | 3,071,359 | 3.5% |
| Hargreaves Lansdown PLC | 2,935,218 | 3.4% |
| JPMorgan Chase & Co | 2,672,782 | 3.1% |

### Political Donations

In accordance with Group policy, no political donations have been made during the year ended 31 March 2022 (FY21: £nil).

### Share Capital

Details of the issued share capital, together with details of the movement in the Company's issued share capital during the year are shown in note 26 to the consolidated financial statements.

**Independent Auditor and disclosure of information to auditor**
The directors confirm that each of the persons who is a director at the date of approval of this annual report confirms that:
- so far as each director is aware, there is no relevant audit information of which the Group and Parent Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

RSM UK Audit LLP were appointed as auditors on 18 September 2020 and have expressed their willingness to continue in office as auditors. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

**Information incorporated by reference**
The Company Overview, Strategic Report and the Corporate Governance Report are incorporated by reference into this Directors' Report and should be read as part of this report.

The Company Overview and Strategic Report can be found on pages 1 to 41 and contain details of the Group's business model and strategic priorities. The purpose of the Strategic Report is to enable shareholders to assess how the Directors have performed their duty under section 172 of the Companies Act 2006. An indication of the likely future developments in the business of the Group is also included in the Strategic Report, which satisfies the reporting requirements of section 414C (11) of the Companies Act 2016.

**Going Concern**
The financial information for the year to 31 March 2022 has been prepared on the basis that the Company will continue as a going concern.

The Board has approved financial profit and cashflow forecasts for the current and succeeding financial years to 31 March 2024. Based on this review, along with regular oversight of the Company's risk management framework the Board has concluded that given the Company's cash reserves available and access to additional liquidity through banking facilities the Company will continue to trade as a going concern.

Approved by the Board of Directors on 23 May 2022 and signed on its behalf below.
By order of the Board.

**Ashleigh Greenan**
Chief Financial Officer and Company Secretary
23 May 2022

# Statement of Directors' Responsibilities

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

Company law requires the directors to prepare Group and Company financial statements for each financial year. The directors have elected under company law and are required by the AIM Rules of the London Stock Exchange to prepare the Group financial statements in accordance with UK-adopted International Accounting Standards and have elected under company law to prepare the Company financial statements in accordance with UK-adopted International Accounting Standards and applicable law.

The Group and Company financial statements are required by law and UK-adopted International Accounting Standards to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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

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

a. select suitable accounting policies and then apply them consistently;
b. make judgements and accounting estimates that are reasonable and prudent;
c. state whether they have been prepared in accordance with UK-adopted International Accounting Standards;
d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Calnex Solutions plc website.

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

By order of the Board.

**Ashleigh Greenan**
Chief Financial Officer and Company Secretary
23 May 2022

# Independent Auditor's Report to the Members of Calnex Solutions plc

**Opinion**

We have audited the financial statements of Calnex Solutions plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2022 which comprise consolidated statement of comprehensive income, consolidated and company statements of financial position, consolidated and company statements of changes in equity, consolidated and company cash flow statements and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted International Accounting Standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

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

**Summary of our audit approach**

| | |
|---|---|
| **Key audit matters** | **Group and Parent**<br>• Valuation and existence of intangible assets |
| **Materiality** | **Group**<br>• Overall materiality: £455,000 (2021: £327,000)<br>• Performance materiality: £341,000 (2021: 245,000)<br><br>**Parent Company**<br>• Overall materiality: £453,000 (2021: £326,000)<br>• Performance materiality: £339,000 (2021: £244,000) |
| **Scope** | Our audit procedures covered 100% of revenue, 99.8% of total assets and 100% of profit before tax. |

**Key audit matters**

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

### Valuation and existence of intangible assets – development costs

| | |
|---|---|
| **Key audit matter description** | We identified the valuation and existence of development costs as a key audit matter due to the significant management judgement required around the capitalisation of costs in line with IAS 38 – Intangible Assets and the subsequent commercialisation lifecycle and related amortisation period.<br><br>The Group conducts a significant amount of development activity and has to identify projects meeting the IAS 38 criteria for capitalisation, and capture the specific costs associated with those projects. Management then have to identify an appropriate amortisation period, which aligns with the benefits derived from the development activity, again, requiring judgement and estimation.<br><br>As disclosed in note 12, £3,913k of cost was capitalised in this regard in the year, amortisation of £3,014k was charged and the net book value as at 31 March 2022 was £8,424k. |
| **How the matter was addressed in the audit** | Our procedures in relation to the valuation and existence of development costs, held within Intangible Assets, included:<br>• Understanding and documenting management's procedures over the capitalisation of development costs<br>• Assessing the nature of costs capitalised<br>• Evaluating the appropriateness of costs capitalised, on a sample basis, by agreeing costs to supporting documentation including external invoices and payroll records<br>• Assessing whether costs may have been capitalised in respect of aborted projects or projects which are no longer revenue generative and considering the implications on gross and net book value<br>• Evaluating the amortisation period applied and its appropriateness in respect of the historic and future product lifecycle |

**Our application of materiality**

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

| | Group | Parent company |
|---|---|---|
| **Overall materiality** | £455,000 (2021: £327,000) | £453,000 (2021: £326,000) |
| **Basis for determining overall materiality** | 5% of Earnings before interest, tax, depreciation and amortisation | 5% of Earnings before interest, tax, depreciation and amortisation |
| **Rationale for benchmark applied** | EBITDA was used as a benchmark, as it was assessed that the shareholders' will be primarily interested in the group and parent company's ability to generate operating cashflows from which to pay future dividends. | |
| **Performance materiality** | £341,000 (2021: 245,000) | £339,000 (2021: £244,000) |
| **Basis for determining performance materiality** | 75% of overall materiality | 75% of overall materiality |
| **Reporting of misstatements to the Audit Committee** | Misstatements in excess of £22,700 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds. | Misstatements in excess of £22,600 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds. |

### An overview of the scope of our audit

The group consists of 2 components, located in the United Kingdom and United States of America.

The coverage achieved by our audit procedures was:

| | Number of components | Revenue | Total assets | Profit before tax |
|---|---|---|---|---|
| Full scope audit | 1 | 100% | 99.8% | 82% |
| Specific audit procedures | 1 | 0% | 0% | 18% |
| **Total** | **2** | **100%** | **99.8%** | **100%** |

There were no audit procedures undertaken by component auditors.

### Conclusions relating to going concern

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

- checking the integrity and accuracy of the cashflow forecasts prepared by management;
- assessing the reasonableness of assumptions and explanations provided by management to supporting information, where available; and
- auditing the accuracy and consistency of disclosures made in the financial statements in respect of principal risks and going concern.

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

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

### Other information

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

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

We have nothing to report in this regard.

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

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

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

**Matters on which we are required to report by exception**
In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Responsibilities of directors**
As explained more fully in the directors' responsibilities statement set out on page 64, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

The most significant laws and regulations were determined as follows:

| Legislation/Regulation | Additional audit procedures performed by the Group audit engagement team included: |
|---|---|
| **UK-adopted International Accounting Standards; Companies Act 2006; and AIM listing rules** | • Review of the financial statement disclosures and testing to supporting documentation; and<br>• Completion of disclosure checklists to identify areas of non-compliance. |
| **Tax compliance regulations** | • Inspection of advice received from external tax advisors and review of the corporation tax computation; and<br>• Consideration of disclosures in the financial statements. |

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

| Risk | Audit procedures performed by the audit engagement team: |
|---|---|
| **Revenue recognition** | • Performing data analytics on sales in the year and testing exceptions out with the normal expected sales cycle;<br>• Substantively testing the cut off and completeness of revenue transactions;<br>• Reperforming the deferred income calculation and substantively testing the year end deferred balance; and<br>• Considering the appropriateness of revenue recognition policies and assessing their compliance with IFRS 15. |
| **Management override of controls** | • Testing the appropriateness of journal entries and other adjustments;<br>• Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and<br>• Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business. |

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

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

RSM UK Audit LLP

**ALAN AITCHISON (Senior Statutory Auditor)**
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Third Floor, Centenary House
69 Wellington Street
Glasgow
G2 6HG

23 May 2022

# Consolidated Statement of Comprehensive Income

| | Note | Year ended 31 March 2022 £'000 | Year ended 31 March 2021 £'000 |
|---|---|---|---|
| **Revenue** | 5 | **22,046** | 17,978 |
| Cost of sales | | **(5,518)** | (4,013) |
| **Gross profit** | | **16,528** | 13,965 |
| Other income | 6 | **648** | 530 |
| Administrative expenses | | **(11,183)** | (10,693) |
| **Operating profit** | | **5,993** | 3,802 |
| Finance costs | 10 | **(20)** | (155) |
| **Profit before taxation** | | **5,973** | 3,647 |
| Taxation | 11 | **(1,433)** | (194) |
| **Profit and total comprehensive income for the year** | | **4,540** | 3,453 |
| | | | |
| Basic earnings per share | 27 | **5.19** | 4.68 |
| Diluted earnings per share | 27 | **5.00** | 4.18 |

# Consolidated and Company Statement of Financial Position

| | Note | Group 31 March 2022 £'000 | Group 31 March 2021 £'000 | Company 31 March 2022 £'000 | Company 31 March 2021 £'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Intangible assets | 12 | **8,424** | 7,525 | **8,424** | 7,525 |
| Plant and equipment | 13 | **274** | 22 | **274** | 22 |
| Right-of-use assets | 19 | **791** | 522 | **791** | 522 |
| Deferred tax asset | 20 | **304** | 613 | **304** | 613 |
| | | **9,793** | 8,682 | **9,793** | 8,682 |
| **Current assets** | | | | | |
| Inventories | 14 | **998** | 1,111 | **998** | 1,111 |
| Trade and other receivables | 15 | **4,997** | 1,819 | **5,197** | 2,200 |
| Cash and cash equivalents | 16 | **13,857** | 12,668 | **13,592** | 12,277 |
| Short term investment | 16 | **1,500** | – | **1,500** | – |
| | | **21,352** | 15,598 | **21,287** | 15,588 |
| **Total assets** | | **31,145** | 24,280 | **31,080** | 24,270 |
| **Current liabilities** | | | | | |
| Trade and other payables | 18 | **5,569** | 4,181 | **5,549** | 4,157 |
| Lease liabilities | 19 | **193** | 130 | **193** | 130 |
| Provisions | 21 | **141** | 291 | **141** | 291 |
| | | **5,903** | 4,602 | **5,883** | 4,578 |
| **Non-current liabilities** | | | | | |
| Trade and other payables | 18 | **718** | 749 | **718** | 749 |
| Lease liabilities | 19 | **664** | 436 | **664** | 436 |
| Deferred tax liabilities | 20 | **2,017** | 1,321 | **2,017** | 1,321 |
| Provisions | 21 | **15** | 15 | **15** | 15 |
| | | **3,414** | 2,521 | **3,414** | 2,521 |
| **Total liabilities** | | **9,317** | 7,123 | **9,297** | 7,099 |
| **Net assets** | | **21,828** | 17,157 | **21,783** | 17,171 |
| **Equity** | | | | | |
| Share capital | | **109** | 109 | **109** | 109 |
| Share premium | | **7,484** | 7,484 | **7,484** | 7,484 |
| Share option reserve | | **502** | 126 | **502** | 126 |
| Retained earnings | | **13,733** | 9,438 | **13,688** | 9,452 |
| **Total equity** | | **21,828** | 17,157 | **21,783** | 17,171 |

The profit for the financial year of the parent company is £4,480,757 (2021: £3,520,596). As provided for by section 408 of the Companies Act 2006, no income statement is presented in respect of the parent company.

The accounts were approved by the Board of Directors and authorised for issue on 23 May 2022. The accounts are signed on their behalf by:

**Ashleigh Greenan**
Director
23 May 2022

# Consolidated Statement of Changes in Equity

| | Share capital £'000 | Share premium £'000 | Share option reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|
| **Balance at 31 March 2020** | **25** | **1,138** | **69** | **5,769** | **7,001** |
| Issue of shares | 16 | 5,984 | – | – | 6,000 |
| Share options | 18 | 362 | 57 | 266 | 703 |
| Bonus share issue | 50 | – | – | (50) | – |
| Total comprehensive income for the year | – | – | – | 3,453 | 3,453 |
| **Balance at 31 March 2021** | **109** | **7,484** | **126** | **9,438** | **17,157** |
| Share options | – | – | 376 | – | 376 |
| Interim dividend | | | | (245) | (245) |
| Total comprehensive income for the year | – | – | – | 4,540 | 4,540 |
| **Balance at 31 March 2022** | **109** | **7,484** | **502** | **13,733** | **21,828** |

# Company Statement of Changes in Equity

| | Share capital £'000 | Share premium £'000 | Share option reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|
| **Balance at 31 March 2020** | **25** | **1,138** | **69** | **5,715** | **6,947** |
| Issue of shares | 16 | 5,984 | – | – | 6,000 |
| Share options | 18 | 362 | 57 | 266 | 703 |
| Bonus share issue | 50 | – | – | (50) | – |
| Total comprehensive income for the year | – | – | – | 3,521 | 3,521 |
| **Balance at 31 March 2021** | **109** | **7,484** | **126** | **9,452** | **17,171** |
| Share options | – | – | 376 | – | 376 |
| Interim dividend | | | | (245) | (245) |
| Total comprehensive income for the year | – | – | – | 4,481 | 4,481 |
| **Balance at 31 March 2022** | **109** | **7,484** | **502** | **13,688** | **21,783** |

# Consolidated and Company Cash Flow Statement

| | Group | | Company | |
|---|---|---|---|---|
| | **31 March 2022 £'000** | 31 March 2021 £'000 | **31 March 2022 £'000** | 31 March 2021 £'000 |
| **Cashflows from operating activities** | | | | |
| Profit before tax from continuing operations | **5,973** | 3,647 | **5,872** | 3,715 |
| Adjusted for: | | | | |
| IPO professional fees and commissions | **–** | 1,057 | **–** | 1,057 |
| Finance costs | **20** | 155 | **20** | 155 |
| Foreign exchange differences | **–** | (65) | **–** | (65) |
| Government grant income | **(197)** | (204) | **(197)** | (204) |
| R&D tax credit income | **(457)** | (326) | **(457)** | (326) |
| Change in fair value of assets and liabilities | **–** | 144 | **–** | 144 |
| Movement in provisions | **(150)** | (14) | **(150)** | (14) |
| Share based payment transactions | **262** | 275 | **262** | 275 |
| Depreciation | **252** | 167 | **252** | 167 |
| Amortisation | **3,014** | 2,585 | **3,014** | 2,585 |
| Movement in inventories | **(38)** | (178) | **(38)** | (178) |
| Movement in obsolescence provision | **150** | 25 | **150** | 25 |
| Movement in trade and other receivables | **(2,815)** | 818 | **(2,567)** | 436 |
| Movement in trade and other payables | **1,129** | 1,271 | **1,108** | 1,230 |
| Net cash used in discontinued operations | **–** | (201) | **–** | (201) |
| Cash generated from operations | **7,143** | 9,156 | **7,269** | 8,801 |
| Interest paid | **–** | (107) | **–** | (107) |
| R&D tax credit refunds received | **207** | – | **207** | |
| **Net cash from operating activities** | **7,350** | 9,049 | **7,476** | 8,694 |
| **Investing activities** | | | | |
| Purchase of intangible assets | **(3,913)** | (3,332) | **(3,913)** | (3,332) |
| Purchase of property and equipment | **(300)** | (10) | **(300)** | (10) |
| Short term investment: fixed term deposit | **(1,500)** | – | **(1,500)** | – |
| **Net cash used in investing activities** | **(5,713)** | (3,342) | **(5,713)** | (3,342) |
| **Financing activities** | | | | |
| Repayment of borrowings | **–** | (2,276) | **–** | (2,276) |
| Payment of lease obligations | **(203)** | (193) | **(203)** | (193) |
| Dividends paid | **(245)** | – | **(245)** | – |
| Share issue proceeds | **–** | 6,000 | **–** | 6,000 |
| Share options proceeds | **–** | 328 | **–** | 328 |
| IPO professional fees and commissions | **–** | (1,057) | **–** | (1,057) |
| Payment of deferred consideration | **–** | (83) | **–** | (83) |
| Government grant income | **–** | 578 | **–** | 578 |
| **Net cash from financing activities** | **(448)** | 3,297 | **(448)** | 3,297 |
| **Net increase in cash and cash equivalents** | **1,189** | 9,004 | **1,315** | 8,649 |
| Cash and cash equivalents at beginning of the year | **12,668** | 3,664 | **12,277** | 3,628 |
| **Cash and cash equivalents at end of the year** | **13,857** | 12,668 | **13,592** | 12,277 |

# Notes to the Financial Statements

## 1. General information

Calnex Solutions plc ("the Company") is a public limited company domiciled and incorporated in Scotland. The registered office is Oracle Campus, Linlithgow, West Lothian, EH49 7LR.

The Company (together with its subsidiary, the "Group") were under the control of the directors throughout the period covered in the financial statements. The list of the subsidiaries consolidated in the financial statements are shown in Note 25.

The principal activity of the Group is the design, production and marketing of test instrumentation and solutions for network synchronisation and network emulation enabling its customers to validate the performance of critical infrastructure associated with telecoms networks, enterprise networks and data centres.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 23 May 2022. The directors have the power to amend and reissue the financial statements.

## 2. Basis of preparation

### (a) Statement of compliance

The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted International Accounting Standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### (b) Basis of accounting

The financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities including financial instruments, which are stated at their fair values.

The preparation of the financial statements in conformity with UK-adopted IAS requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense. The estimates and judgements are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented.

### (c) Functional and presentation currency

The financial statements are presented in pounds Sterling, which is the functional and presentation currency of the Group. Results in these financial statements have been prepared to the nearest thousand.

### (d) Basis of consolidation

The consolidated financial statements incorporate those of Calnex Solutions plc, and all its subsidiaries. A subsidiary is an entity controlled by the Group, i.e. the Group is exposed to, or has the rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its current ability to direct the entity's relevant activities (power over the investee). All intra-Group transactions, balances, and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The total comprehensive income, assets and liabilities of the entities are amended, where necessary, to align the accounting policies.

The Group applies the acquisition method to account for all acquired businesses, whereby the identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (with a few exceptions as required by IFRS 3 Business Combinations).

The cost of a business combination is the fair value at the acquisition date of the assets given, equity instruments issued and liabilities incurred or assumed, plus costs directly attributable to the business combination. The excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

## 2. Basis of preparation continued

### (d) Basis of consolidation continued

The acquisition of assets that falls outside the scope of IFRS 3 are accounted for by bringing the assets and liabilities of the acquired entity into the financial statements at their nominal value from the date of acquisition. Comparative information is not restated.

### (e) Going Concern

The financial information for the year to 31 March 2022 has been prepared on the basis that the Company will continue as a going concern.

The business has not seen any detrimental impact on trading as a result of the COVID-19 pandemic and the Group did not require the assistance of government funding during the government mandated lockdowns. The Group is not significantly exposed to industries that have been heavily affected by COVID-19 and management has been able to implement remote working from home since the beginning of the rollout of global lockdown measures to continue to operate effectively and meet customer requirements. Appropriate safety measures have also been put in place to protect staff that need to visit our offices whilst adhering to government advice on stay at home directives across our various locations. The staff have now returned to the offices and are operating a hybrid working model allowing staff to work from home where supported by management. The directors continue to monitor the government guidance and will reintroduce all safety measures where required.

The directors continue to closely monitor the situation, with rolling cashflow forecasting and visibility over the order pipeline being key to provide early indication of required action in order to mitigate against the commercial effect of further lockdowns or new virus threats.

The Board has approved financial profit and cashflow forecasts for the current and succeeding financial years to 31 March 2024. Based on this review, along with regular oversight of the Company's risk management framework, the Board has concluded that given the Company's cash reserves available and access to additional liquidity through banking facilities the Company will continue to trade as a going concern.

## 3. Significant accounting policies

### (a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of sales related taxes and discounts and is recognised at the point in time when the relevant performance obligation is satisfied.

Where revenue contracts have multiple elements, all aspects of the transaction are considered to determine whether these elements can be separately identified. Where transaction elements can be separately identified and revenue can be allocated between them on a fair and reliable basis, revenue for each element is accounted for according to the relevant policy below. Where transaction elements cannot be separately identified, revenue is recognised over the contract period.

The Group recognises revenue from the following major sources:

#### Hardware & software revenue

Revenue from the sale of hardware and bundled software, is recognised when the Group transfers the risk and rewards to the customer. Each unit sale comes with a standard warranty period during which the Group agrees to provide warranty cover, maintenance cover and software upgrade cover in the event of any software upgrades being released. This is recognised as a separately identifiable obligation from the provision of the hardware and is recognised over the life of the cover provided, being a year.

For the sale of stand-alone software, the licence period and therefore the revenue recognition, commences upon delivery.

### Extended warranty programme

The Group enters into agreements with purchasers of its equipment to perform necessary repairs falling outside the Group's standard warranty period. As this service involves an indeterminate number of acts, the Group is required to 'stand ready' to perform whenever a request falling within the scope of the program is made by a customer. Revenue is recognised on a straight-line basis over the term of the contract.

This method best depicts the transfer of services to the customer as:
i) The Group's historical experience demonstrates no statistically significant variation in the quantum of services provided in each year of a multi-year contract; and
ii) no reliable prediction can be made as to if and when any individual customer will require service.

### Software support programme

The Group enters into agreements with purchasers of its equipment to provide software support and access to future software updates. Revenue is recognised on a straight-line basis over the term of the contract.

### Grant income

The Group obtains grant funding from the Scottish Government in the form of reimbursement for research and development costs eligible for reclaim under the grant agreement. Costs are incurred before they can be reclaimed under the grant agreement and revenue is only recognised after receipt of the funds from the government. Grant funds received are recognised over five years, in line with the amortisation policy on capitalised research and development costs.

## (b) Retirement benefit costs

Payments to defined contribution schemes are charged to the Statement of comprehensive income as an expense as they fall due.

## (c) Share based payments

Equity-settled and cash settled share-based compensation benefits are provided to some employees. Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. There are no other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying the Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:
- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

**3. Significant accounting policies** continued

**(c) Share based payments** continued

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

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when the relevant requirements of IAS 12 are satisfied.

**(d) Taxation**

The tax expense represents the sum of the current tax and deferred tax charge for the year. The tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases, as used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of financial assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

**(e) Business combinations**

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the Group to former owners of the acquirer. All acquisition costs are expensed as incurred to profit or loss. On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss.

The difference between the acquisition-date fair value of assets acquired and liabilities assumed and the fair value of the consideration transferred is recognised as goodwill. If the consideration transferred is less than the fair value of the identifiable net assets acquired, a bargain purchase is recognised as a gain directly in profit or loss by the Group on the acquisition-date.

Business combinations are initially accounted for on a provisional basis. The Group retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

### (f) Intangible assets
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the Group is able to use or sell the asset; the Group has sufficient resources and intent to complete the development; and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years. Amortisation is charged to administrative expenses in the Statement of Comprehensive Income.

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

### (g) Financial assets
Where there is no publicly quoted market value, other investments, including subsidiaries, are shown at cost less provisions for impairment.

### (h) Plant and equipment
Plant and equipment are shown at cost, net of depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at varying rates calculated to write off cost less residual value over the useful lives. Depreciation is charged to administrative expenses in the Statement of Comprehensive Income. The principal rates employed are:

| | |
|---|---|
| Plant and machinery | 25-33% straight line |

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate these values may not be recoverable. If there is an indication that impairment does exist, the carrying values are compared to the estimated recoverable amounts of the assets concerned.

The recoverable amount is the greater of an asset's value in use and its fair value less the cost of selling it. Value in use is calculated by discounting the future cash flows expected to be derived from the asset. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down through the income statement to its recoverable amount.

An item of property, plant and equipment is written off either on disposal or when there is no expected future economic benefit from its continued use. Any gain or loss (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the income statement in the year.

**3. Significant accounting policies** continued

## (i) Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

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

## (j) Inventories

Inventories are valued at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods for resale, the average purchase price is used. For work in progress and finished goods, cost is taken as production cost which includes an appropriate proportion of overheads.

Inventories are assessed for indicators of impairment at each year end and where a provision is required the income statement is charged directly.

## (k) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses.

The simplified approach to measuring expected credit losses has been applied, this uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

## (l) Cash and cash equivalents

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of 95 days or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

## (m) Short term investments

Cash at bank on fixed term deposit, and other liquid investments with maturities of greater than 95 days, but less than 12 months at the reporting date.

## (n) Borrowings

Interest-bearing loans and bank overdrafts are initially recorded at the fair value of proceeds received and are subsequently stated at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

## (o) Trade and other payables

Trade payables are non-interest-bearing and are measured at amortised cost.

## (p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

### (q) Financial liabilities

Financial liabilities are recognised on the Group's Statement of financial position when the Group becomes a party to the contractual provisions of that instrument.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The changes in fair value are recorded in the statement of comprehensive income.

### (r) Lease liabilities

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

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

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

### (s) Foreign currency

In preparing the financial statements, transactions in currencies other than pounds sterling are recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognised in the consolidated Statement of comprehensive income for the period.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the rates prevailing at the dates when the fair value was determined. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency (e.g. property, plant and equipment purchased in a foreign currency) are translated using the exchange rate prevailing at the date of the transaction. Exchange differences arising on the translation of net assets are affected through the Statement of Comprehensive Income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period and recognised in the Statement of Comprehensive Income.

### (t) Dividends

Dividends are recognised when declared during the financial year. The declaration of dividends is at the discretion of the directors.

**3. Significant accounting policies** continued

### (u) Value Added Tax

Revenues, expenses and assets are recognised net of the amount of associated VAT, unless the VAT incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of VAT receivable or payable. The net amount of VAT recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Commitments and contingencies are disclosed net of the amount of VAT recoverable from, or payable to, the tax authority.

### (v) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the shareholders, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### (w) Critical judgements in applying the Groups accounting estimates

In the process of applying the Group's accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Impairment

Determining whether any non-current asset has been impaired requires an estimation of the value in use of the cash generating units to which these assets are allocated. The value in use calculation requires the Group to identify appropriate cash generating units, to estimate the future cash flows expected to arise from each cash generating unit and a suitable discount rate in order to calculate present value. Impairment exercises on fixed tangible assets, goodwill and indefinite life intangible assets have been undertaken each year presented.

Useful lives

The Group uses forecast cash flow information and estimates of future growth to assess whether goodwill and other intangible fixed assets are impaired, and to determine the useful economic lives of its goodwill and intangible assets. If the results of operations in a future period are adverse to the estimates used a reduction in useful economic life may be required.

### (x) New accounting standards

There have been no applicable new standards, amendments to standards and interpretations effective from 1 April 2021 that have been applied by the Group which have resulted in a significant impact on its consolidated results or financial position.

## 4 Operating segments

Operating segments are based on the internal reports that are reviewed and used by the Board (who are identified as the Chief Operating Decision Makers) in assessing performance and determining the allocation of resources. As the Group has a central cost structure and a central pool of assets and liabilities the Board does not consider segmentation in their review of costs or the statement of financial position. The only operating segment information reviewed, and therefore disclosed, are the revenues derived from different geographies.

| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
|---|---|---|
| Americas | **7,066** | 5,767 |
| North Asia | **6,780** | 5,945 |
| Rest of World | **8,200** | 6,266 |
| | **22,046** | 17,978 |

## 5 Revenue

| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
|---|---|---|
| Sale of goods | **20,040** | 16,509 |
| Rendering of services | **2,006** | 1,469 |
| Total revenue | **22,046** | 17,978 |

76% (2021: 72%) of the Group order intake has been generated through the network of the Group's principal distribution partner. Included within order intake is an amount of £3,656,051 (2021: £2,144,773) which arose from the Groups largest customer. This is the only customer to exceed 10% of the Group's orders.

## 6 Other income

| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
|---|---|---|
| Government grant income | **191** | 204 |
| R&D tax credit | **457** | 326 |
| | **648** | 530 |

# Notes to the Financial Statements continued

## 7 Material operating profit items

| | Year ended 31 March 2022 £'000 | Year ended 31 March 2021 £'000 |
|---|---|---|
| Operating profit for the year is stated after charging/(crediting): | | |
| IPO related professional fees and commissions | – | 1,057 |
| Issue of free shares to employees | – | 166 |
| Share based payments | 262 | 275 |
| Amortisation of intangible assets | 3,014 | 2,585 |
| **Auditor's remuneration** | | |
| Fees payable to the Group's auditor and its associates for the audit of the Group's annual accounts | 44 | 35 |
| Fees payable to the Group's auditor and its associates for the audit of the Company's subsidiaries | – | – |
| **Total fees payable for audit services** | **44** | 35 |
| Fees payable to the Group's auditor and its associates for other services: | | |
| Audit related services | 2 | – |
| Tax related services | – | – |
| Other services | – | 151 |
| **Total fees payable to the Group's auditor and its associates** | **46** | 186 |

## 8 Employee benefits costs

### Average monthly number of employees

| | Year ended 31 March 2022 £'000 | Year ended 31 March 2021 £'000 |
|---|---|---|
| Development staff | 64 | 58 |
| Administrative staff | 42 | 33 |
| Management staff | 10 | 9 |
| | 116 | 100 |

| | Year ended 31 March 2022 £'000 | Year ended 31 March 2021 £'000 |
|---|---|---|
| Employee costs during the year (including directors remuneration) amounted to: | | |
| Wages and salaries | 7,694 | 6,875 |
| Social security costs | 630 | 586 |
| Defined contribution pension | 251 | 212 |
| Share incentive scheme | 210 | 215 |
| Equity-settled share based payment | 249 | 275 |
| Cash-settled share based payment | 13 | – |
| | 9,047 | 8,163 |
| Total gross wages and salaries capitalised in the year, included in the analysis above | 3,138 | 2,728 |

## 9 Key management personnel emoluments

| | Year ended 31 March 2022 £'000 | Year ended 31 March 2021 £'000 |
|---|---|---|
| Wages and salaries | **638** | 654 |
| Social security costs | **67** | 58 |
| Defined contribution pension | **6** | 6 |
| Equity-settled share based payment | **29** | 91 |
| | **740** | 809 |
| Gains made on share options converted by directors in the year | **–** | 613 |
| The number of directors who accrued benefits under the company pension plans | | |
| Defined contribution plans | **1** | 1 |
| Remuneration of the highest paid director in respect of qualifying services: | | |
| Aggregate remuneration | **255** | 184 |

## 10 Finance costs

| | Year ended 31 March 2022 £'000 | Year ended 31 March 2021 £'000 |
|---|---|---|
| Interest expense for borrowings at amortised cost | **–** | 107 |
| Interest expense on lease liabilities | **20** | 63 |
| Unwinding of discount on deferred consideration | **–** | (15) |
| | **20** | 155 |

## 11 Taxation

| | Year ended 31 March 2022 £'000 | Year ended 31 March 2021 £'000 |
|---|---|---|
| **Current taxation** | | |
| UK corporation tax on profits for the year | **373** | 67 |
| Foreign current tax expense | **46** | 12 |
| Adjustments relating to prior years | **(120)** | (9) |
| | **299** | 70 |
| **Deferred taxation** | | |
| Origination and reversal of temporary differences | **799** | 61 |
| Adjustments relating to prior periods | **(46)** | 63 |
| Effect of changes in tax rates | **381** | – |
| | **1,134** | 124 |
| **Total taxation charge** | **1,433** | 194 |

### 11 Taxation continued

| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
|---|---|---|
| Profit before tax for the year | **5,973** | 3,647 |
| Tax thereon at 19% | **1,134** | 693 |
| Effects of: | | |
| Expenses disallowable for tax purposes | **67** | 196 |
| Adjustments in respect of prior periods – current tax | **(120)** | (9) |
| Adjustments in respect of prior periods – deferred tax | **(46)** | 64 |
| Change in tax rate on opening balance | **381** | – |
| Movement in unprovided deferred tax related to share options | **–** | (573) |
| Movement in unprovided deferred tax related to timing differences now recognised | **–** | (54) |
| SME R&D credit | **(9)** | (123) |
| Impact of super deduction | **(20)** | – |
| Overseas tax | **46** | – |
| Effect of non-UK losses | **–** | – |
| **Taxation charge** | **`1,433** | 194 |

The weighted average applicable tax rate for the year ended 31 March 2022 was 19% (2021: 19%). The effective rate of tax for the year, based on the taxation charge for the year as a percentage of the profit before tax is 24.0% (2021: 5.3%) The 5 percentage point difference between the applicable rate of tax and the effective rate is largely due to the following:

- Recognition of the change in tax rate to 25% on certain deferred tax assets and liabilities as they are expected to reverse after 1 April 2023; and
- Availability of R&D SME enhanced deduction which was included in the tax returns for 31 March 2020 and 31 March 2021 and benefit recognised as an adjustment to prior periods.

### 12 Intangible assets

Included within intangible assets are the following significant items:

- Cost of patent applications and on-going patent maintenance fees.
- Capitalised development costs representing expenditure relating to technological advancements on the core product base of the Group. These costs meet the requirement of IAS 38 (Intangible Assets) and will be amortised over the future commercial life of the related product. Amortisation is charged to administrative expenses.

| | **Intellectual property £'000** | **Development costs £'000** | ***Group* Total £'000** | ***Company* Total £'000** |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 April 2021 | 2,348 | 24,438 | 26,786 | 26,786 |
| Additions | 8 | 3,905 | 3,913 | 3,913 |
| Disposals | (132) | (1,105) | (1,237) | (1,237) |
| At 31 March 2022 | 2,224 | 27,238 | 29,462 | 29,462 |
| **Amortisation** | | | | |
| At 1 April 2021 | 2,140 | 17,121 | 19,261 | 19,261 |
| Charge for the year | 106 | 2,908 | 3,014 | 3,014 |
| Eliminated on disposal | (132) | (1,105) | (1,237) | (1,237) |
| At 31 March 2022 | 2,114 | 18,924 | 21,038 | 21,038 |
| **Net book value** | | | | |
| **31 March 2021** | 208 | 7,317 | 7,525 | 7,525 |
| **31 March 2022** | 110 | 8,314 | 8,424 | 8,424 |

During the year, a review of the carried development costs brought forward has resulted in a disposal of £1,105,063, and elimination of amortisation of £1,105,063 resulting in a net book value impact of £nil. This reflects removal of aged spend on product features that are now considered to be superseded by current product developments.

### 13 Plant and equipment

The Group annually reviews the carrying value of tangible fixed assets taking recognition of the expected working lives of the plant and equipment available to the Group and known requirements. Depreciation is charged to administrative expenses.

| | *Group* | *Company* |
|---|---|---|
| | **Plant and equipment Total £'000** | **Plant and equipment Total £'000** |
| **Cost** | | |
| At 1 April 2021 | 119 | 119 |
| Additions | 300 | 300 |
| Disposals | (84) | (84) |
| At 31 March 2022 | 335 | 335 |
| **Depreciation** | | |
| At 1 April 2021 | 97 | 97 |
| Charge for the year | 48 | 48 |
| Eliminated on disposal | (84) | (84) |
| At 31 March 2022 | 61 | 61 |
| **Net book value** | | |
| **31 March 2021** | 22 | 22 |
| **31 March 2022** | 274 | 274 |

### 14 Inventories

| | *Group* | | *Company* | |
|---|---|---|---|---|
| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
| Finished goods | **1,427** | 1,390 | **1,427** | 1,390 |
| Provision for obsolescence | **(429)** | (279) | **(429)** | (279) |
| | **998** | 1,111 | **998** | 1,111 |
| Cost of inventories recognised as an expense | **4,811** | 3,591 | **4,811** | 3,591 |
| Group inventories reflect the following movement in provision for obsolescence: | | | | |
| At start of the financial year | **279** | 253 | **279** | 253 |
| Utilised | **(23)** | (98) | **(23)** | (98) |
| Provided | **173** | 124 | **173** | 124 |
| At end of the financial year | **429** | 279 | **429** | 279 |

### 15 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
| *Amounts due within one year* | | | | |
| Trade receivables | **4,120** | 988 | **4,120** | 988 |
| Other receivables | **748** | 700 | **748** | 700 |
| Amounts owed by group companies | **–** | – | **201** | 381 |
| Prepayments and accrued income | **129** | 131 | **128** | 131 |
| | **4,997** | 1,819 | **5,197** | 2,200 |

Trade receivables are consistent with trading levels across the Group and are also affected by exchange rate fluctuations.

No interest is charged on the trade receivables. The Group has reviewed for estimated irrecoverable amounts in accordance with its accounting policy.

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers as appropriate to the level of credit extended. In addition, credit insurance would be sought for major areas of exposure, although this has not been required in the year under review.

The Group reviews trade receivables past due but not impaired on a regular basis and considers, based on experience, that the credit quality of these amounts at the balance sheet date has not deteriorated since the date of the transaction.

Included in the Group's trade receivables balance are debtors with a carrying amount of £103,605 (2021: £78,664), which are past due at the reporting date but for which the Group has not provided against. As there has not been a significant change in credit quality, the Group believes that all amounts remain recoverable.

#### Ageing of past due but not impaired trade receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
| Overdue by | | | | |
| 0-30 days | **104** | 46 | **104** | 46 |
| 30-60 days | **–** | 32 | **–** | 32 |
| 60+ days | **–** | – | **–** | – |
| | **104** | 78 | **104** | 78 |

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Note 22 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses. The calculated credit risk is £11,080 (2021: £3,221). Due to the immaterial nature of the balance, no provision has been recognised.

## 16 Cash and cash equivalents

Cash and cash equivalent amounts included in the Consolidated Statement of Cashflows comprise the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
| Cash at bank | **7,330** | 7,668 | **7,065** | 7,277 |
| Cash on short term deposit | **6,527** | 5,000 | **6,527** | 5,000 |
| Total cash and cash equivalents | **13,857** | 12,668 | **13,592** | 12,277 |
| Short term investment: fixed term deposit | **1,500** | – | **1,500** | – |

Short term cash deposits of £1,501,049 (2021: £nil) are callable on a notice of 65 days.

Short term cash deposits of £5,025,495 (2021: £5,000,000) are callable on a notice of 95 days.

Cash held on long-term deposits (being deposits with maturity of greater than 95 days, and no more than twelve months) that cannot readily be converted into cash have been classified as a short term investment. A total of £1,500,000 (2021: £nil) is currently held on fixed term deposit, with a maturity on this investment of less than twelve months at the reporting date.

The Directors consider that the carrying value of cash and cash equivalents and short-term investments approximates their fair value. Details of the Group's credit risk management are included in note 22.

## 17 Borrowings

The Group currently has a £3,000,000 revolving credit facility, at an interest rate of 2.25% above the Bank of England base rate, and secured with a floating charge over the Group assets. The total amount drawn from the borrowing facility as at 31 March 2022 was £nil. (31 March 2021: £nil)

This facility is subject to the following financial covenants:

i) Leverage covenant: Gross borrowings to R&D adjusted EBITDA: The ratio of Gross Borrowings at the end of each relevant period to R&D Adjusted EBITDA for such Relevant Period shall not exceed 1.75 to 1. R&D adjusted EBITDA is defined as EBITDA less capitalised development expenditure in the period.

ii) Interest Cover Covenant: EBIT to Net Financing Costs: The ratio of EBIT for each Relevant Period to Net Financing Costs for such Relevant Period shall not fall below 4.00 to 1.

The Group has passed all covenant tests during the review period.

### 18 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
| *Amounts due within one year* | | | | |
| Trade payables | **924** | 944 | **911** | 927 |
| Other taxes and social security | **149** | 126 | **149** | 126 |
| Other payables | **60** | 51 | **60** | 51 |
| Accruals | **2,406** | 1,561 | **2,399** | 1,554 |
| Deferred income | **2,030** | 1,499 | **2,030** | 1,499 |
| | **5,569** | 4,181 | **5,549** | 4,157 |
| *Amounts due after one year* | | | | |
| Deferred income | **718** | 749 | **718** | 749 |
| Total amounts due | **6,287** | 4,930 | **6,267** | 4,906 |

Trade and other payables are consistent with trading levels across the Group but are also affected by exchange rate fluctuations.

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The Group has financial risk management policies in place to ensure all payables are paid within the agreed credit terms.

The directors consider that the carrying amount of trade and other payables approximates their fair value.

Deferred income relates to fees received for ongoing services to be recognised over the life of the service rendered, and grant proceeds received but not yet released to the Statement of comprehensive income.

### 19 Leases

The Group leases land and buildings for its head office in Linlithgow, Scotland. The current lease was agreed on 1 December 2019 and will run for the 5-year period to 30 November 2024. The Group had previously recognised the right-of use asset and a lease liability applying a discount rate of 11%, which was consistent with the incremental borrowing rate at the date of the initial agreement. During the year, the Group has amended the lease agreement, and upon amendment has rebaselined the discount rate to be consistent with the incremental borrowing rate for the business post IPO. The revised discount rate applied for the remainder of the lease is 2.25%.

On the 4 March 2022 the Group agreed an additional premises lease for office space in Belfast. This lease has an initial 5 year term, with the right-of-use asset and subsequent lease liability being recognised by applying a 3.5% discount rate. This rate is consistent with the rebased incremental borrowing rate applied to the Linlithgow lease, inclusive of subsequent national interest rate increases.

The Group leases IT equipment with contract terms ranging between 1 to 2 years. The Group has recognised right-of use assets and lease liabilities for these leases.

The carrying value of right of use assets, and lease obligations recognised with respect to these leases are shown below:

| | Building Lease £'000 | IT equipment £'000 | *Group* Total £'000 | *Company* Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 April 2021 | 649 | 91 | 740 | 740 |
| Additions | 394 | 79 | 473 | 473 |
| Disposals | – | – | – | – |
| At 31 March 2022 | 1,043 | 170 | 1,213 | 1,213 |
| **Depreciation** | | | | |
| At 1 April 2021 | 173 | 45 | 218 | 218 |
| Charge for the year | 162 | 42 | 204 | 204 |
| Eliminated on disposal | – | – | – | – |
| At 31 March 2022 | 335 | 87 | 422 | 422 |
| **Net book value** | | | | |
| **31 March 2021** | **476** | **46** | **522** | **522** |
| **31 March 2022** | **708** | **83** | **791** | **791** |

## Right-of-use assets

| | *Group* | | *Company* | |
|---|---|---|---|---|
| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
| Balance at 1 April | **522** | 660 | **522** | 660 |
| Additions to right of use assets | **473** | 20 | **473** | 20 |
| Depreciation charge for the year | **(204)** | (158) | **(204)** | (158) |
| Balance at 31 March | **791** | 522 | **791** | 522 |

## Lease liabilities

| | *Group* | | *Company* | |
|---|---|---|---|---|
| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
| Balance at 1 April | **566** | 676 | **566** | 676 |
| Acquisition of new leases | **474** | 20 | **474** | 20 |
| Payment of lease liabilities | **(203)** | (193) | **(203)** | (193) |
| Interest expense on lease liabilities | **20** | 63 | **20** | 63 |
| Balance at 31 March | **857** | 566 | **857** | 566 |
| **Disclosed as** | | | | |
| Current | **193** | 130 | **193** | 130 |
| Non-current | **664** | 436 | **664** | 436 |
| | **857** | 566 | **857** | 566 |

**19 Leases** continued

**Lease liabilities** continued

During the year, the Group also leased additional land and buildings in Belfast and one motor vehicle. These leases were low-value, so have been expensed as incurred. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

### Lease commitments for short-term and low value leases

| | *Group* | | *Company* | |
|---|---|---|---|---|
| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
| Motor vehicles | **17** | 15 | **17** | 15 |
| Land and buildings | **51** | 30 | **51** | 30 |
| | **68** | 45 | **68** | 45 |

### Amounts recognised in the profit and loss

| | *Group* | | *Company* | |
|---|---|---|---|---|
| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
| Depreciation charge – building lease | **162** | 130 | **162** | 130 |
| Depreciation charge – IT equipment | **42** | 28 | **42** | 28 |
| Interest on lease liabilities | **20** | 63 | **20** | 63 |
| Low value lease rental | **68** | 42 | **68** | 42 |

### Amounts recognised in statement of cashflows

| | *Group* | | *Company* | |
|---|---|---|---|---|
| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
| Total cash outflow for leases | **(203)** | (193) | **(203)** | (193) |

A maturity analysis of lease liabilities is included in note 22 (d).

### 20 Deferred tax

The 2021 budget proposal increases the corporation tax rate to 25% from 1 April 2023. This was substantively enacted in the Finance Act 2021 on 24 May 2021.

## Deferred tax asset

| | *Group* | | *Company* | |
|---|---|---|---|---|
| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
| Opening balance | **613** | 554 | **613** | 554 |
| Recognised in statement of comprehensive income | **(424)** | 9 | **(424)** | 9 |
| Recognised in equity | **115** | 50 | **115** | 50 |
| Closing balance | **304** | 613 | **304** | 613 |
| Deferred tax assets arise as follows: | | | | |
| Unused tax losses | **–** | 491 | **–** | 491 |
| Share based remuneration | **265** | 64 | **265** | 64 |
| Other timing differences | **39** | 58 | **39** | 58 |
| Total deferred tax asset | **304** | 613 | **304** | 613 |

## Deferred tax liability

| | *Group* | | *Company* | |
|---|---|---|---|---|
| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
| Opening liability | **1,321** | 1,188 | **1,321** | 1,188 |
| Recognised in statement of comprehensive income | **696** | 133 | **696** | 133 |
| Recognised in equity | **–** | – | **–** | – |
| Closing liability | **2,017** | 1,321 | **2,017** | 1,321 |
| Deferred tax liabilities arise as follows: | | | | |
| Deferred tax on acquisition | **19** | 38 | **19** | 38 |
| Timing differences on development costs | **1,915** | 1,275 | **1,915** | 1,275 |
| Accelerated capital allowances | **87** | 11 | **87** | 11 |
| Accrued pension costs | **(4)** | (3) | **(4)** | (3) |
| Total deferred tax liability | **2,017** | 1,321 | **2,017** | 1,321 |

## 21 Provisions

| | Group | | Company | |
|---|---|---|---|---|
| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
| *Current provisions* | | | | |
| Overseas tax | **141** | 291 | **141** | 291 |
| *Non-current provisions* | | | | |
| Dilapidations | **15** | 15 | **15** | 15 |
| Total provisions | **156** | 306 | **156** | 306 |
| **The movement in the total provision liability** | | | | |
| At start of financial year | **306** | 304 | **306** | 304 |
| Recognised in profit and loss | **(150)** | 2 | **(150)** | 2 |
| At end of financial year | **156** | 306 | **156** | 306 |

Current year provisions are recognised in respect of potential payments to be made to overseas tax authorities, and potential payments to be made in respect of dilapidations on leased assets. No discount is recorded on recognition of the provisions or unwound due to the short-term nature of the expected outflow and the low value and estimable nature of the non-current element.

## 22 Financial instruments

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments in the form of forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, and not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

### Capital management

The Board's policy is to maintain a strong capital base so as to cover all liabilities and to maintain the business and to sustain its development. The Board defines capital as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

### (a) Categories of financial instruments

| | Group | | Company | |
|---|---|---|---|---|
| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
| **Financial assets (current and non-current) at amortised cost** | | | | |
| Trade and other receivables | **4,279** | 1,688 | **4,480** | 2,069 |
| Cash and cash equivalents | **13,857** | 12,668 | **13,592** | 12,277 |
| Short term investments | **1,500** | – | **1,500** | – |
| **Financial liabilities (current and non-current) at amortised cost** | | | | |
| Lease liabilities | **857** | 566 | **857** | 566 |
| Trade and other payables | **3,391** | 2,682 | **3,371** | 2,658 |

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. Under the fair value three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs for the asset or liability.

## Financial risk management objectives

The Group's senior management team manage the financial risks relating to the operations of each department. These risks include market risk, credit risk and liquidity risk.

Where appropriate, the Group seeks to minimise the effects of market risks by using financial instruments to mitigate these risk exposures as appropriate. The Group does not enter into or trade in financial instruments for speculative purposes.

### (b) Market risks

*Foreign currency risk*

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates.

| **As at 31 March 2022** | **Sterling £'000** | **Euro £'000** | **US Dollar £'000** | **Total £'000** |
|---|---|---|---|---|
| Trade receivables | **89** | **93** | **3,938** | **4,120** |
| Lease liabilities | **(857)** | **–** | **–** | **(857)** |
| Trade payables | **(818)** | **–** | **(106)** | **(924)** |
| Cash and cash equivalents | **12,989** | **207** | **661** | **13,857** |
| Short term investments: fixed term deposit | **1,500** | **–** | **–** | **1,500** |
| | **12,903** | **300** | **4,493** | **17,696** |

Based on this exposure, had Pound Sterling weakened by 5% the Group's profit before tax would have been £239,650 lower. The percentage change is based on management's assessment of reasonable possible fluctuations.

## 22 Financial instruments continued

### Financial risk management objectives continued

| As at 31 March 2021 | Sterling £'000 | Euro £'000 | US Dollar £'000 | Total £'000 |
|---|---|---|---|---|
| Trade receivables | 70 | 215 | 703 | 988 |
| Borrowings | – | – | – | – |
| Lease liabilities | (566) | – | – | (566) |
| Trade payables | (864) | – | (80) | (944) |
| Cash and cash equivalents | 11,658 | 112 | 898 | 12,668 |
| | 10,298 | 327 | 1,521 | 12,146 |

Based on this exposure had Pound Sterling weakened by 5% the Group's profit before tax would have been £92,400 lower. The percentage change is based on management's assessment of reasonable possible fluctuations.

*Interest rate risk*
The Group is not exposed to any significant interest rate risk as borrowings are obtained at fixed rates.

*Other market price risk*
The Group is not exposed to any other significant market price risks.

(c) Credit risk management
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The Group's principal financial assets, other than business assets, are trade and other receivables and cash and cash equivalents. These represent the Group's maximum exposure to credit risk in relation to financial assets.

| | *Group* | | *Company* | |
|---|---|---|---|---|
| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
| Trade and other receivables | **4,075** | 1,688 | **4,276** | 2,069 |
| Cash and cash equivalents | **13,857** | 12,668 | **13,592** | 12,277 |
| Short term investments | **1,500** | – | **1,500** | – |
| | **19,432** | 14,356 | **19,368** | 14,346 |

### Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The balance presented in the balance sheet is net of allowances for doubtful receivables and returns, estimated by the Group's management based on prior experience and their assessment in the current economic climate. No adjustment has been estimated for the allowance for credit loss.

The Group's main concentration of credit risk relates to where a credit risk management approach is employed, including strict retention of title, customer stock holding visibility and the use of credit insurance.

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

The expected credit loss for trade receivables as at 31 March 2022 and 31 March 2021 were determined as follows:

| **Days past due 2022** | **0** | **1–30** | **31–60** | **>60** | **Total** |
|---|---|---|---|---|---|
| Balance outstanding (£'000) | **4,016** | **104** | **–** | **–** | **4,120** |
| Historic loss rate | **0%** | **0%** | **0%** | **0%** | |
| Estimated credit loss provision | **0.25%** | **1%** | **1.5%** | **2%** | |
| Potential credit loss allowance (£'000) | **10** | **1** | **–** | **–** | **11** |

| Days past due 2021 | 0 | 1–30 | 31–60 | >60 | Total |
|---|---|---|---|---|---|
| Balance outstanding (£'000) | 910 | 46 | 32 | – | 988 |
| Historic loss rate | 0% | 0% | 0% | 0% | |
| Estimated credit loss provision | 0.25% | 1% | 1.5% | 2% | |
| Potential credit loss allowance (£'000) | 3 | – | – | – | 3 |

Due to the immaterial nature of the assessed credit risk, no provision has been recognised for 31 March 2022 or 31 March 2021.

### Cash

Cash is held with banks in the UK/US with high credit ratings and no financial loss due to the banks' failure to meet their contractual obligations is expected.

#### (d) Liquidity risk management

The Group manages liquidity risk through the monitoring of forecast cash flows and through the use of bank loans when required thereby maintaining sufficient liquid assets to fund its contractual obligations and maintain the ongoing development of the Group.

The table below provides an analysis of the Group's financial liabilities to be settled on a gross basis by relevant maturity categories from the balance sheet date to the contractual settlement date. The table includes both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| **31 March 2022** | **1 year or less £'000** | **1 to 2 years £'000** | **2 to 5 years £'000** | **Over 5 years £'000** | **Total liabilities £'000** |
|---|---|---|---|---|---|
| Trade payables | **924** | **–** | **–** | **–** | **924** |
| Other payables | **2,615** | **–** | **–** | **–** | **2,615** |
| Lease liabilities | **193** | **462** | **202** | **–** | **857** |
| | **3,732** | **462** | **202** | **–** | **4,396** |

| 31 March 2021 | 1 year or less £'000 | 1 to 2 years £'000 | 2 to 5 years £'000 | Over 5 years £'000 | Total liabilities £'000 |
|---|---|---|---|---|---|
| Trade payables | 944 | – | – | – | 944 |
| Other payables | 1,738 | – | – | – | 1,738 |
| Lease liabilities | 161 | 117 | 288 | – | 566 |
| | 2,843 | 117 | 288 | – | 3,248 |

### 23 Retirement benefits

Contributions by Group companies are charged to the income statement as an expense as they fall due. The amount recognised as an expense in relation to defined contributions plans was £250,504 (2021: £212,482).

### 24 Share based payments

| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
|---|---|---|
| **Charged to administration expenses:** | | |
| Equity settled share based payments | **249** | 275 |
| Cash settled share based payments | **13** | – |
| Total share based payments | **262** | 275 |

During the year 1.9m share options were granted (2021: 2.7m). The fair value of share options granted has been estimated at the date of the grant using the Black-Scholes binomial model. The following table gives the assumptions made in arriving at the share based payment charge and the fair value:

| | **Year ended 31 March 2022** | Year ended 31 March 2021 |
|---|---|---|
| Options issued | **1,917,000** | 2,650,000 |
| Weighted average share price (pence) | **118** | 51 |
| Weighted average exercise price (pence) | **118** | 48 |
| Expected volatility (%) | **77.2–105.2** | 61.0 |
| Vesting period (years) | **3–5** | 3–5 |
| Option life (years) | **10** | 10 |
| Risk free rate (%) | **0.02** | 0.02 |
| Dividend yield (%) | **1.0** | 1.0 |
| Fair value at grant date (£'000) | **1,071** | 598 |

During the year 0.1m share options were forfeited.

| | |
|---|---|
| Equity options in issue at 31 March 2021 | 2,650,000 |
| Equity options issued in the year | 1,917,000 |
| Equity options forfeited in the year | (92,065) |
| Equity options in issue at 31 March 2022 | 4,474,935 |

Expected volatility in the current year was determined by calculating the historical volatility of the Group's share price over the previous year, which the Board consider to be representative of future volatility.

For the year ended 31 March 2021, due to the relative immaturity of the Group's share history at reporting date, the volatility of comparable companies in the same industry was utilised in the determination of future volatility included within the model assumptions.

During the year 0.2m cash settled options were granted (2021: nil). The fair value has been measured at the reporting date using the Black-Scholes binomial model. Due to the proximity of the reporting date to the issue of equity settled share options granted, the model assumptions on volatility, risk free rate, and dividend yield used for the cash settled options do not materially differ from those in the table above.

| | Year ended 31 March 2022 | Year ended 31 March 2021 |
|---|---|---|
| Options issued | **150,500** | – |
| Weighted average share price (pence) | **117** | – |
| Weighted average exercise price (pence) | **117** | – |
| Vesting period (years) | **3–5** | – |
| Option life (years) | **10** | – |
| Fair value at reporting date (£'000) | **80** | – |

### 25 Group companies

| Subsidiary undertakings | Country of registration or incorporation | % of direct shares held Principal activity | 2022 | 2021 |
|---|---|---|---|---|
| Calnex Americas Corporation | USA | Sales and marketing Support services to Calnex Solutions plc | **100%** | 100% |

### 26 Called up share capital

As at 31 March 2022, the Company had 87,500,000 Ordinary Shares held at a nominal value of 0.125p.

| | *Group and Company* | |
|---|---|---|
| | Year ended 31 March 2022 £'000 | Year ended 31 March 2021 £'000 |
| Ordinary shares of 0.125p each | **109** | 109 |
| On issue at the start of the financial year | **109** | 25 |
| Bonus issue of shares | **–** | 50 |
| Share options exercised | **–** | 18 |
| Shares issued | **–** | 16 |
| In issue at end of the financial year | **109** | 109 |

### 27 Earnings per share
Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of Ordinary Shares in issue during the year.

Diluted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the total of the weighted average number of Ordinary Shares in issue during the year and adjusting for the dilutive potential Ordinary Shares relating to share options and warrants.

| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
|---|---|---|
| Profit after tax attributable to shareholders | **4,540** | 3,453 |
| Weighted average number of ordinary shares used in calculating: | | |
| Basic earnings per share | **87,500** | 73,762 |
| Diluted earnings per share | **90,845** | 82,575 |
| Earnings per share – basic (pence) | **5.19** | 4.68 |
| Earnings per share – diluted (pence) | **5.00** | 4.18 |

### 28 Notes to the Statement of Cashflow
Reconciliation of changes in liabilities to cashflows arising from financing activities

| | Lease liabilities £'000 | Total £'000 |
|---|---|---|
| Balance at 31 March 2021 | 566 | 566 |
| Lease repayment | (203) | (203) |
| Interest payments | 20 | 20 |
| Total changed from financing cashflows | 383 | 383 |
| Acquisition of new lease | 474 | 474 |
| Total other changes | 474 | 474 |
| Balance at 31 March 2022 | 857 | 857 |

### 29 Share schemes
The company operates a number of share incentive plans on behalf of its employees, details of which can be found in the Remuneration Committee report. Included in these are the UK Share Incentive Plan and a cash settled phantom plan for Non-UK employees:

#### UK Employee Share Incentive Plan (UK SIP)
The UK SIP is an all-employee HMRC approved share plan open to employees based in the UK. Employees can elect to invest up to £150 each month (£1,800 per year), deducted from their gross salary, which is used to purchase shares at market value as "partnership" shares. The Company offers participants "matching" shares, which are subject to forfeiture for three years, on the basis of one free matching share for each partnership share purchased.

## Non-UK Employee Incentive Plan

Under the SIP Plan, shares may only be awarded to UK based employees of the Group. As the Board also wanted to have the discretion to grant awards to contractors and overseas employees, it was necessary to set up a separate Non-UK Employee Incentive Plan under the rules of the Notional Plan (refer to the Remuneration Committee Report for more detail). This Plan acts as a non-tax advantaged shadow equity interest plan to the SIP, mirroring the SIP awards for overseas employees and contractors with equity ownership being replaced by cash settlement. The non-UK Employee Incentive plan is therefore available to employees in countries other than the UK, on a cash-settled basis. Employees can elect to save funds up to £150 each month (£1,800 per year), deducted from their pre-tax salary, for a 12-month period, and matched by the Group. In the cash settled model, these savings are then returned to the participant at the prevailing market share price at the end of the savings period, had the funds been used to purchase Calnex shares (returns being fully funded by the Group). Employees participating in this scheme during the period under review included those based in China, Hong Kong and India and the USA. The fair value assessment of this obligation at the year-end was £150,000 (2021: £70,000), and is included within other creditors.

## 30 Dividends

All dividends are determined and paid in Pound Sterling.

| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
|---|---|---|
| **Declared and paid in the year** | | |
| Interim dividend 2022: 0.28p per share | **245** | – |
| **Proposed for approval at the AGM (not recognised as a liability at 31 March 2022)** | | |
| Final/Interim dividend 2022: 0.56p per share | **490** | – |

The Directors are proposing a final dividend with respect to the financial year ended 31 March 2022 of 0.56p per share which will represent £490,000 of a dividend payment. The final dividend will be proposed for approval at the AGM and, if approved, will be paid at an agreed date shortly thereafter.

## 31 Post balance sheet events

On 11 April 2022, the Group acquired the entire share capital of iTrinegy Ltd and its wholly owned subsidiary company iTrinegy, Inc on a 'cash free, debt free' basis. The consideration comprises an initial cash payment of £2.5m, with up to a further £1.0m potentially payable in a combination of new ordinary shares in Calnex and cash (the "Earn-out Payment"). The Earn-out Payment is subject to the achievement of certain sales targets from iTrinegy products in the year to 31 March 2024. A maximum of 322,579 new shares will be issued under the Earn-out Payment. The initial cash payment of £2.5m has been financed entirely from available cash resources.

Given the proximity of the date of the acquisition to the date of signing of these accounts, the initial accounting for the business combination remains incomplete and the financial impact of the transaction is still to be fully calculated.

### 32 Alternative performance measures

The performance of the Group is assessed using a variety of performance measures, including APMs which are presented to provide users with additional financial information that is regularly reviewed by the Board of Directors. These APMs are not defined under IFRS and therefore may not be directly comparable with similarly identified measures used by other companies.

| | **Year ended 31 March 2022 £'000** | Year ended 31 March 2021 £'000 |
|---|---|---|
| Underlying EBITDA | **6,351** | 5,496 |
| Underlying EBITDA % | **29%** | 31% |
| Adjusted profit before tax | **5,973** | 5,068 |
| Adjusted profit before tax % | **27%** | 28% |
| Capitalised R&D | **3,905** | 3,326 |
| Adjusted basic EPS (pence) | **5.19** | 5.83 |
| Adjusted diluted EPS (pence) | **5.00** | 5.21 |

**Key performance measures:**

- **Underlying EBITDA:** EBITDA after charging R&D amortisation, adjusted in comparative periods also to exclude IPO costs and IPO related share based payments.
- **Adjusted profit before tax:** Adjusted in comparative periods to exclude IPO costs and IPO related share based payments.
- **Adjusted basic & diluted EPS:** Adjusted in comparative periods to exclude IPO costs and IPO related share based payments and the tax effect of these adjustments. As a result of the Company's admission to AIM occurring halfway through FY21, the basic and diluted weighted average number of shares in issue in the prior year were 73,762,000 and 82,575,000 respectively, compared with 87,500,000 total share capital and 90,150,000 diluted share capital post IPO.

**Reconciliation of statutory figures to alternative performance measures – Income Statement**

| | **FY22 £000** | FY21 £000 |
|---|---|---|
| **Revenue** | **22,046** | 17,978 |
| Cost of sales | **(5,518)** | (4,013) |
| **Gross Profit** | **16,528** | 13,965 |
| Other income | **648** | 530 |
| Administrative expenses (excluding depreciation & amortisation) | **(7,917)** | (7,941) |
| EBITDA | **9,259** | 6,554 |
| Amortisation of development costs | **(2,908)** | (2,479) |
| *Add back exceptional items:* | | |
| IPO costs | **–** | 1,057 |
| Issue of Free Shares on IPO under Share Incentive Scheme | **–** | 166 |
| Share based payments | **–** | 198 |
| **Underlying EBITDA** | **6,351** | 5,496 |
| Other depreciation & amortisation | **(358)** | (273) |
| **Operating Profit** | **5,993** | 5,223 |
| Finance costs | **(20)** | (155) |
| **Adjusted profit before tax** | **5,973** | 5,068 |
| Exceptional items | **–** | (1,421) |
| **Profit before tax** | **5,973** | 3,647 |
| Tax | **(1,433)** | (194) |
| **Profit for the year** | **4,540** | 3,453 |

# Company Information and Advisors

## Directors

George Elliott
Tommy Cook
Ashleigh Greenan
Ann Budge
Graeme Bissett
Margaret Rice-Jones
(appointed 10th January 2022)
Stephen Davidson
(appointed 10th January 2022)

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Ashleigh Greenan

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# Notes

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