

Bytes Software Services Limited

Annual Report and Financial Statements

Year Ended

28 February 2023

Company Number 01616977



Bytes Software Services Limited

Company Information

Directors	N R Murphy A J Nicholson D Rawle J M Watson T E Sexton P D Emms
Company secretary	W K Groenewald
Registered number	01616977
Registered office	Bytes House Randalls Way Leatherhead Surrey KT22 7TW
Independent auditor	Ernst & Young LLP Grosvenor House Grosvenor Square Southampton SO15 2BE
Bankers	HSBC Bank Plc 12a North Street Guildford GU1 4AF
Solicitors	Moore Barlow LLP Gateway House Tollgate Chandler's Ford Southampton SO53 3TG

Bytes Software Services Limited

Contents

	Page
Strategic report	1 - 11
Directors' report	12 - 14
Directors' responsibilities statement	15
Independent auditor's report	16 - 19
Statement of profit or loss	20
Statement of financial position	21
Statement of changes in equity	22 - 23
Notes to the financial statements	24 - 51

Bytes Software Services Limited

Strategic report For the year ended 28 February 2023

Introduction

The directors present their strategic report together with the audited financial statements for the year ended 28 February 2023 ("FY23") for Bytes Software Services Limited ('the Company').

Business review and principal activity

The principal activities of the Company throughout the year were, and continue to be, the provision of IT products and services, both as a reseller of third-party software and as a provider of consulting services, managed services and software asset management (SAM) services.

(i) Financial review

We are delighted with the strong performance in FY23, which saw the Company deliver growth in operating profit of 17% and gross profit of 20%, driven by a 19% increase in turnover.

We have maintained our track record of strong double-digit year-on-year growth despite ongoing uncertainty caused by the geopolitical outlook and macro-economic conditions, with our business benefiting from our wide-ranging product offering, with a substantial suite of software, services and IT hardware solutions from the world's leading vendors and software publishers.

This is illustrated as shown by the key performance indicators (KPIs) below:

KPIs	2023	2022	Change
Turnover (£'000)	905,673	758,799	19%
Gross Profit (£'000)	97,391	81,060	20%
Gross Margin %	10.8%	10.7%	
Operating Profit (£'000)	40,966	35,160	17%
Operating Profit / Gross Profit	42%	43%	

Operating profit is stated after the costs of management fees from the Company's ultimate parent company, Bytes Technology Group plc, and new employee share option schemes, both of which have increased year on year. Excluding the impact of these two non-operating items, the underlying operating profit for the year was £46.4 million (2022 £38.3 million) which represents a growth of 22%. Further details of the employee share schemes are set out in note 20.

(ii) Development & performance during the year

FY23 has seen continued double-digit growth across all our key performance measures. As the country and the economy have emerged from the Covid-19 restrictions imposed three years ago, we have seen the new ways of working with our customers and partners continue, which has enabled us to expand and evolve our offerings further in FY23.

With hybrid working now widespread across our whole customer base, and heightened requirements around cybersecurity, customers have continued to engage with us to support their move into the cloud, or extending their presence in it, with more sophisticated and resilient security, support, and managed service solutions. This has resulted in operating profit increasing by 17% to £41.0 million (FY22: £35.2 million).

Our customers' appetite for security, cloud adoption, digital transformation, hybrid datacentres and remote working solutions have underpinned our continued growth in FY23. These investments increasingly take the form of annualised contracts and, accordingly, we remain confident in the Company's growth prospects going forward. The Company also increased its membership of public sector procurement frameworks, a crucial step to winning public sector contracts which then creates the means to potential further work. This reinforces our belief in the potential for future up-selling and cross-selling opportunities into existing clients. The double-digit growth in turnover and gross profit more generally reflects the buoyant and robust nature of IT spend across our customer groups.

Bytes Software Services Limited

Strategic report (continued)
For the year ended 28 February 2023

(ii) Development & performance during the year (continued)

We continue to expand our IT services capability, underpinned by key vendor accreditations, in the provision of managed services, augmented with our own IP in the form of Quantum. These services, together with additional cybersecurity services and consultancy, enable us to expand our relevance to clients who need support and assurance as they seek to strengthen their IT resilience and security.

This was backed up by the continued strengthening of partnerships with vendors whose products the Company sells and winning further accreditations and awards from many of them. Such industry recognition further heightens the Company's reputation with its vendors and customers and is validation of the expertise and quality of its people. This included the Company being named Microsoft Partner of the Year for Operational Excellence in 2022 from over 3,900 partner entries globally. These awards reflect the status and high esteem which the company has with global technology leaders and is testament to the expertise of our staff and the customer success stories that we deliver.

Our success in growing turnover and gross profit also continues to be as a result of the investments made over the years in our front lines sales teams, vendor and technology specialists and service delivery staff supported by our back office teams. During the year we have seen our total staff numbers rise to 552 on our February 2023 payroll up by 97 when compared to the prior period.

The Company results for the year show a profit before tax of £41.0 million (2022: £35.2 million) with turnover of £905.7 million (2022: £758.8 million). Net assets of the Company were £30.4 million (2022: £23.4 million).

(iii) Future outlook

The Company continues to be in a strong position to keep growing in the new financial year by delivering against the high demand it sees, particularly for cloud and security solutions, and having invested in our staff, systems, and service offerings.

The directors continue to monitor and manage the Company's principal risks on an ongoing basis, in particular those of margin pressure, changes to vendors' commercial models, wage inflation and staff retention. Further details are set out below.

Bytes Software Services Limited

Strategic report (continued) For the year ended 28 February 2023

Section 172 statement

Large companies must publish a statement setting out how their directors have complied with Section 172(1) of the Companies Act 2006. This requires directors to act in the way they consider would be most likely to promote the success of the Company for the benefit of its members as a whole and in doing so have regard (amongst other matters) to:

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

The directors understand that the Company's relationships with both internal and external stakeholders are dynamic, and that its stakeholders' interests may change over time. In response to this, the directors manage their key stakeholders' interests through various means of engagement, meetings, reports, telecommunications, emails and presentations. The directors respect these interests when discharging their duties and have identified the Company's key stakeholders as its customers, employees, shareholders, suppliers, and the communities in which it operates.

Customers

Building trusted relationships with customers, based on a deep understanding of their needs, is critical to our strategy. The directors stay engaged and informed in a number of ways:

- Feedback from account and sales teams' meetings with customers in person and at virtual events, including tradeshows and conferences, and through social media and podcasts.
- Feedback and insights from management about our clients' strategies and future investment plans, through contract reviews and feedback from the Company's customer success teams.
- Feedback from management's interactions with customers in roundtable and summit events, and other events such as the Company's summer networking event at Somerset House.
- Customer experience surveys requesting honest feedback and with results reported to the directors against the results of the previous year to track progress.
- Interactions between our directors and customers about what they want to see from our products and services from an operational and sustainability perspective. Major feedback is discussed with management and the directors.

This year we asked management to update us about customer experiences around changes to the vendor programme and pricing. We asked how these changes were affecting how customers engaged with the Company, and how customers' experience of wider economic pressures within their own environments were affecting their engagement with us. This gave us a better understanding of customers' views and experiences.

Based on the feedback we receive, customers look to us for:

- Effective and cost-efficient technology sourcing, adoption and management across software, and security and cloud services
- Help to identify their software needs, select, and deploy appropriate software products, manage licence compliance and, ultimately, optimise their software assets.

Numerous customer events were held during the year, in person or virtually, which helps us keep up to date with what is most important to customers.

Bytes Software Services Limited

Strategic report (continued) For the year ended 28 February 2023

Section 172 statement (continued)

Employees

People are at the heart of the Company's business and are instrumental to its continued growth and success. We strongly support protecting employees and making sure the business continues to attract and retain best talent. The directors stay engaged and informed in a number of ways:

- Regular updates from management and HR about talent and succession planning, and employee remuneration and benefits, including pensions.
- Updates from management about career development, leadership coaching, online staff feedback platforms, quarterly whole-Company meetings, employee NPS (net promoter score) surveys and engagement with the leadership team.
- Feedback from the Better Bytes team, which lets our people share insights, feedback and ideas, and to constructively challenge management about how it can improve. As a result of feedback, in 2022/23
 - The Company deployed AEDs (automated external defibrillators) in all offices, installed a lanyard recycling bin and made plant milk available. The internal training platform is currently being changed to be mindful of neurodiversity, and the Company is offering incentive trips aligned more to health and wellbeing. The Company has also run mental-health first-aider training sessions for all managers. The feedback from those employees who run the platform has also allowed the Company to make many useful changes to the platform's back-end processes.
 - A sustainability management tool was developed to help drive progress against ESG goals.
- Monitoring the annual all-employee Sharesave scheme, which first launched in June 2021 with the strong uptake in its first year, and that was repeated in 2022/23, again with positive support and more than 50% uptake.

Based on feedback we have received; we know that our people prioritise:

- Opportunities for professional development and career progression
- A safe, diverse, and inclusive working culture
- The ability to deliver market-leading solutions to our customers.

Through town hall Q&A sessions, we also know employees want to be kept updated about the Company's strategy, risk management plans, growth plans and M&A strategy, and are keen to maintain the strong culture as the business grows.

The physical and mental health and safety of employees is a top priority for us as directors. We support the opportunities the Company creates for employees to talk with leadership team members. These sessions enable employees to ask questions, provide feedback, share experiences, and get to know each other better in small groups over coffee.

We support the Company's continued programme offering employees health support through qualified internal teams and by partnering with an independent health and wellbeing specialist – as well as the direct confidential channels for anyone to raise personal concerns. In 2022/23, for example, the Company held an on-site wellness day, featuring exercise sessions, a juice bar and talks, and another day about financial wellbeing.

The directors and management received feedback on these activities, which enabled us to improve employee engagement and take action where required.

For example, we recently increased annual leave from 20 to 25 days for Bytes employees who have been with the Company for five years or less. We also supported the Company offering employees time off to pursue sports and activities with a variety of Company-supported events.

Suppliers and vendors

The Company's well established relationships with suppliers and vendors helps it to provide the best solutions and support for employees and customers. The directors stay informed in a number of ways including updates from management about the major third parties with whom the Company does business, including its suppliers, banks and regulators.

Bytes Software Services Limited

Strategic report (continued) For the year ended 28 February 2023

Section 172 statement (continued)

Suppliers and vendors (continued)

The integrity of supplier arrangements – particularly robustness of supply – is a key consideration. The Company screens all major third parties for reputational and financial risks to make sure there are no apparent issues that could damage its reputation or finances. We clearly document terms and conditions, including service levels, payment terms and working practices.

This year, directors engaged directly with vendors and partners at industry events, through specific Company-directed engagements and in interactions around solutions and services.

We also held close engagements with suppliers and vendors about changes within their programme and pricing structures. They discussed how the Company and directors could best manage interactions and relations with customers.

Based on these updates, the directors understand how important to suppliers and vendors a close and mutually beneficial relationship with the Company is. Equally, our strategy and decision making are informed by developments in technology, which highlights the importance of maintaining strategic and trusted partnerships with the world's most successful software companies.

Investors

The Company's investors own the Company and have made a financial commitment to its success. Creating value for them is a key objective for the directors; our mission, purpose, values and strategy are focused on delivering long-term, sustainable growth.

Our ultimate parent Company's shareholders provide a source of capital, enabling us to grow and invest for future success. They are interested in a wide range of issues, including the execution of our strategy, our financial and operational performance, governance, remuneration, acquisitions and capital allocation. As required, our directors engaged with the larger shareholders, and potential new investors, during the financial year taking on board their views and future expectations for the Company. The directors oversee our proactive approach to investor relations and to provide shareholders with regular updates on financial and operational performance.

Community and environment

The Company recognises that it is part of the communities in which it operates and strives to make a meaningful contribution to sustainable environments. Briefings from management keep directors informed that our operations, products and services are aimed at not adversely affecting the environment and should positively contribute to the communities in which the Company operates.

As part of its social responsibility, the Company continues to develop a more diverse workforce and partner with organisations that share its values. The Company provides engaging and well-paid local employment, minimises its impact on the environment by using raw materials, natural resources and energy responsibly, and works to reduce waste and harmful emissions, components and by-products.

A corporate social responsibility programme, with clear objectives, is in place and in 2021/22, the Company adopted its first Sustainability Framework – in response to the views and expectations of stakeholders, and the Company's own values and aspirations to contribute more to its communities and the environment.

It also set up a steering committee, supported by employee working groups, to ensure it meets its environmental and social goals. Any material issues raised in this committee are reported to the directors.

The directors supported fundraising events, employee fundraising matching and volunteering days. Such days are initiated within the business to benefit various charities and causes.

Management reports carbon reduction efforts – funding, carbon reduction plans, governance structure, resourcing – to the directors, and we resolve these issues as appropriate.

Also, through the sustainability governance framework, the Better Bytes team support environmental activities.

Bytes Software Services Limited

Strategic report (continued)
For the year ended 28 February 2023

Section 172 statement (continued)

Community and environment (continued)

The business maintains a dialogue with local schools and colleges to understand how to help them and to encourage students to join the Company through its graduate intake initiatives.

We support the Company to encourage employees to volunteer for charities and provide support for various social and environmental causes. The Company supports employees' efforts by making charitable donations and by giving them paid time off to volunteer.

Principal risks and uncertainties

We have identified principal risks and uncertainties that could have a significant impact on the Company's operations, which we assign to four categories: financial, strategic, process and systems, and operational. Management review each principal risk looking at its level of severity, where it overlaps with other risks, the speed at which it is changing, and its relevance to the Company. We consider the principal risks both individually and collectively, so that we can appreciate the interplay between them and understand the entire risk landscape.

We are continuing to review the uncertain economic picture, exacerbated by the crisis in Ukraine, the changing market, and the development of our internal governance in evolving our principal risks and uncertainties. The current principal risks and uncertainties that management believes could have a significant effect on the Company's financial performance are:

FINANCIAL RISKS	
1 ECONOMIC DISRUPTION	
<p>The risk</p> <p>This includes the impact of the crisis in Ukraine, the uncertainties caused by global economic pressures and geopolitical risk within the UK post-Brexit.</p>	<p>How we manage it</p> <p>We have so far continued to perform well during the conflict in Ukraine, and under the current effects of inflation, the cost-of-living crisis and leaving the EU.</p>
<p>The impact</p> <p>Major economic disruption – including the risk of continuing high inflation (see below) and potentially higher taxes – could see reduced demand for software licensing, hardware and IT services, which could be compounded by government controls. Lower demand could also arise from reduced customer budgets, cautious spending patterns or clients 'making do' with existing IT.</p> <p>Economic disruption could also affect the major financial markets, including currencies, interest rates and the cost of borrowing. Economic deterioration like this could have an impact on our business performance and profitability.</p>	<p>Despite the economic shocks of the past year and continued pressure from the Ukraine conflict, we have not seen an impact on our business.</p> <p>These real-life experiences have shown us to be resilient through tough economic conditions. The diversity of our client base has also helped to maintain and increase business in this period. We are not complacent, however – economic disruption remains a risk and we keep operations under constant review.</p>

Bytes Software Services Limited

Strategic report (continued)
For the year ended 28 February 2023

Principal risks and uncertainties (continued)

2 MARGIN PRESSURE	
<p>The risk The Company faces pressure on profit margins from a myriad of directions, including increased competition, changes in vendors' commercial behaviour, certain offerings being commoditised and changes in customer mix or preferences.</p>	<p>How we manage it Profit margins are affected by many factors at customer and micro levels.</p> <p>We can control some of the factors that influence our margins; however, some factors, such as economic and political ones, are beyond our control.</p>
<p>The impact These changes could affect our business performance and profitability.</p>	<p>In the past year we have sought to increase margins where possible; cost increases from vendors have grown our margins organically. Our diverse portfolio of offerings, with a mix of vendors as well as a mix of software and services, has enabled us to absorb any changes. Services delivered internally are consistently measured against competition to ensure we remain competitive and maximise margins.</p> <p>We aim to agree acceptable profit margins with customers upfront.</p> <p>Keeping the correct level of certification by vendor, early deal registration and rebate management are three methods deployed to ensure we are procuring at the lowest cost and maximising incentives earned.</p> <p>This risk area is reviewed monthly.</p>
3 CHANGES TO VENDORS' COMMERCIAL MODEL	
<p>The risk The Company receives incentive income from our vendor partners and their distributors. This partially offsets our costs of sales but could be significantly reduced or eliminated if the commercial models are changed significantly.</p>	<p>How we manage it We maintain a diverse portfolio of vendor products and services. Although we receive major sources of funding from specific vendor programmes, if one source declines, we can offset it by gaining new certifications in, and selling, other technologies where new funding is available.</p>
<p>The impact These incentives are very valuable and contribute to our operational profits. Significant changes to the commercial models could put pressure on our profitability.</p>	<p>We closely monitor incentive income and make sure staff are aligned to meet vendor partner goals so that we don't lose out on these incentives. Close and regular communication with all our major vendor partners and distributors means we can manage this risk appropriately. In some areas we have seen a positive change from vendor commercials, where we have been able to adapt practices.</p> <p>The materiality of this risk has not yet been realised, but it remains a risk.</p>

Bytes Software Services Limited

Strategic report (continued) For the year ended 28 February 2023

Principal risks and uncertainties (continued)

4 INFLATION	
<p>The risk Inflation in the UK, as measured by the Consumer Price Index (CPI), was at 8.7% at the end of the year to May 2023, which is driven by three main drivers: electricity/gas, transport costs and food/non-alcoholic beverages.</p>	<p>How we manage it Our ongoing focus on software asset management means that we continue to advise customers in the most cost-effective ways to fulfil their software needs. Changes to economic conditions mean many organisations will look to IT to drive growth and/or efficiency.</p>
<p>The impact This could create an environment in which customers redirect their spending from new IT projects to more pressing needs.</p> <p>Wage inflation and increased fuel and energy costs have a direct impact on our underlying cost base.</p>	<p>Staff costs are the largest part of our overheads, so our attention is focused on our staff and their ability to cope with the rising cost of living.</p> <p>Externally, we have seen an increase in customers looking to avoid increased staff costs by outsourcing their IT through managed services. This may create an opportunity to accelerate our service offerings.</p>

5 INCREASING DEBTOR RISK	
<p>The risk As customers face the challenges of inflation and rising interest rates in the current economic environment, there is a greater risk of an increasing aged debt profile, with customers slower to pay and the possibility of bad debts.</p>	<p>How we manage it Our credit collections teams are focused on collecting customer debts on term and maintaining our debtor days at targeted levels. Debt collection is reported and analysed continually and escalated to senior management as required.</p>
<p>The impact This could adversely affect our businesses' profitability and/or cashflow.</p>	<p>A large part of a successful outcome is maintaining strong, open relationships with our customers, understanding their issues and ensuring our billing systems deliver accurate, clear and timely invoicing, so that queries can be quickly resolved.</p>

STRATEGIC RISKS	
6 VENDOR CONCENTRATION	
<p>The risk Over-reliance on any one technology or supplier could pose a potential risk, should that technology be superseded or be exposed to economic down cycles, or if the vendor fails to innovate ahead of customer demands.</p>	<p>How we manage it We work with our vendors as partners – it is a relationship of mutual dependency because we are their route to the end customer. We maintain excellent relationships with all our vendors, and have a particularly good relationship with Microsoft, which relies on us as a key partner in the UK. Our growth plans, which involve developing business with all our vendors, will naturally reduce the risk of relying too heavily on any single one.</p>
<p>The impact Too heavy a reliance on any one vendor could have an adverse effect on our financial performance, should that relationship break down.</p> <p>Global shortages of computer hardware and components could also reduce customers' ability to purchase hardware for internal use. This could lead to delays in customers purchasing software, which is linked to or dependent on the hardware being available. Reduced access to computer chips could also slow down vendor innovation, leading to delays in the creation of new technology to resell to customers.</p>	<p>Hardware is not a core element of our business, but is a growing sector, so we will be monitoring supply closely. However, we monitor the geopolitical situation continuously and work closely with suppliers to stay fully informed, so that we can respond quickly should the landscape change. With a diverse portfolio of suppliers and vendors, we are able to offer alternatives to customers if there is a particular vendor with a supply issue. Given this risk is largely driven by geopolitical and macroeconomic factors, we maintain a watching brief so that we can react swiftly if we need to.</p>

Bytes Software Services Limited

Strategic report (continued) For the year ended 28 February 2023

Principal risks and uncertainties (continued)

7 COMPETITION	
<p>The risk Competition in the UK IT market, or the commoditisation of IT products, may result in the Company being unable to win or maintain market share.</p> <p>Mergers and acquisitions have consolidated our distribution network and absorbed specialist services companies. This has caused overlap with our own offerings.</p> <p>A move to direct vendor resale to end customers (disintermediation) could place more pressure on the market opportunity.</p> <p>Platforms, like marketplaces, with direct sales to customers could also be seen as disintermediation.</p>	<p>How we manage it We closely watch commercial and technological developments in our markets.</p> <p>The threat of disintermediation by vendors has always been present. We minimise this threat by continuing to increase the added value we bring to customers directly. This reduces clients' desire to deal directly with vendors.</p> <p>Equally, vendors cannot engage with millions of organisations globally without the sort of well-established network of intermediaries that we have.</p> <p>We currently work with AWS Marketplace and can sell to our vendors through their platform, which gives discounts to the customer versus buying directly.</p>
<p>The impact This would have a material adverse impact on our business and profitability.</p> <p>A huge change would need a big shift in business operations, including a strategic overhaul of the products, solutions and services that we offer to the market.</p> <p>More consolidation could lead to less competition between vendors and cause prices to value-added resellers, like us, to rise and service levels to fall. Direct resale to customers could also increase.</p> <p>This could erode reseller margins, given the purchase cost is less for the distributor than the reseller. This could reduce our market, margin and profits.</p>	<p>Currently, there is no sign of any commoditisation that would be a serious threat to our business model in the short or medium term.</p>

Bytes Software Services Limited

Strategic report (continued)
For the year ended 28 February 2023

Principal risks and uncertainties (continued)

8 RELEVANCE AND EMERGING TECHNOLOGY	
<p>The risk As the technology and security markets evolve rapidly and become more complex, the risk exists that we might not keep pace and so fail to be considered for new opportunities by our customers.</p>	<p>How we manage it We stay relevant to our customers by:</p> <ul style="list-style-type: none"> – Continuing to offer them expert advice and innovative solutions – Specialising in high-demand areas – Holding superior levels of certification – Maintaining our good reputation and helping clients find the right solutions in a complex, often confusing IT marketplace. <p>We defend our position by keeping abreast of new technologies and the innovators who develop them. We do this, for example, by running a Cyber Accelerator Programme for new and emerging solution providers, joining industry forums and sitting on new technology committees. We have expanded the number and range of our subject matter experts, who stay abreast of developments in their areas and communicate this internally and externally.</p> <p>By identifying and developing bonds with emerging companies, we maintain good relationships with them as they grow and give our customers access to their technologies. This is core to our business, so the risk from this is relatively low.</p>
<p>The impact As customers have wide choice and endless opportunities to research options, if we do not offer cutting-edge products and relevant services, we could lose sales and customers, which would affect our profitability.</p>	

PROCESS AND SYSTEMS	
9 CYBERTHREATS – DIRECT AND INDIRECT	
<p>The risk Breaches in the security of electronic and other confidential information that the Company collects, processes, stores and transmits may give rise to significant liabilities and reputational damage.</p>	<p>How we manage it We use intelligence-driven analysis, including research by our internal digital forensics team, to protect ourselves.</p> <p>This work provides insights into vulnerable areas and the effects of any breaches, which allow us to strengthen our security controls.</p>
<p>The impact If a hacker accessed our IT systems, they could infiltrate one or more of our customer areas. This could provide indirect access to, or the intelligence required to compromise or access, a customer environment.</p> <p>This would increase the chance of first- and third-party risk liability, with the possible effects of regulatory breaches, loss of confidence in our business, reputational damage and potential financial penalties.</p>	

Bytes Software Services Limited

Strategic report (continued)
For the year ended 28 February 2023

Principal risks and uncertainties (continued)

10 BUSINESS CONTINUITY FAILURE	
<p>The risk Any failure or disruption of the Company's IT infrastructure or business applications may negatively affect us. Not keeping pace with changes in technology might also mean we are unable to advise our customers and so lose market share.</p>	<p>How we manage it Our Chief Technology Officer and Head of IT effectively manage and oversee our IT infrastructure, network, systems and business applications. All our operational teams are focused on the latest vendor products and educate sales teams appropriately.</p>
<p>The impact Systems and IT infrastructure are key to our operational effectiveness. Failures or significant downtime could hinder our ability to serve customers, sell solutions or invoice.</p> <p>Major outages in systems that provide customer services could limit clients' ability to extract crucial information from their systems or manage their software.</p>	<p>Regular IT audits have identified areas of improvements and ongoing reviews make sure we have a high level of compliance and uptime. This means our systems are highly effective and fit for purpose.</p> <p>For business continuity, we use different locations, sites and solutions to limit the impact of service outage to customers. Where possible, we use active resilience solutions – designed to withstand or prevent loss of services in an unplanned event – rather than just disaster-recovery solutions and facilities, which restore normal operations after an incident.</p> <p>Increased automation means a heavier reliance on technology. Although it reduces human error, it could potentially increase our reliance on other vendors.</p>
11 ATTRACT AND RETAIN STAFF WHILE KEEPING OUR CULTURE	
<p>The risk The success of the Company's business and growth strategy depends on our ability to attract, recruit and retain a talented employee base. Being able to offer competitive remuneration is an important part of this.</p> <p>Three factors are affecting this:</p> <ul style="list-style-type: none"> – The CPI is driving wage inflation – There is a skills shortage in the IT sector – With remote or hybrid working becoming the norm, potential employees in traditionally lower-paid geographical regions are able to work remotely in higher-paying areas like London. <p>Maintaining Company culture also affects how we attract and retain staff, which growth can change.</p>	<p>How we manage it We continually strive to be the best company to work for in our sector.</p> <p>One of the ways we manage this risk is by growing our own talent pools. We've used this approach successfully in our graduate intakes for sales staff, for example. The Company also runs an extensive apprenticeship programme to create a new security skill set. We also look to make sure management has enough time to coach new staff.</p> <p>Maintaining our culture is important to retain current staff. Our small-company feel is maintained through regular communications, clubs, charity events and social events.</p>
<p>The impact Excessive wage inflation could either drive up costs or mean we are unable to attract or retain the talent pool we need to continue to deliver our planned growth.</p>	

This report was approved by the board on 10 July 2023 and signed on its behalf.

DocuSigned by:

Tina Sexton

586F8C86C8F84B3...

T Sexton
Director

Bytes Software Services Limited

Directors' report For the year ended 28 February 2023

The directors present their report together with the audited financial statements for the year ended 28 February 2023.

Business review

A review of the business and its principal risks and uncertainties is set out in the Strategic report on pages 1-11 of this Annual Report.

Results and Dividends

The profit for the year, after taxation, amounted to £32.9 million (2022: £28.6 million). The net assets of the Company were £30.4 million (2022: £23.4 million).

The Company paid a dividend in the year of £26.0 million (2022: £39.8 million)

Directors

The directors who served during the year were:

N R Murphy
A J Nicholson
D Rawle
J M Watson
T E Sexton
P D Emms

Financial risk management

The directors monitor the liquidity and cash flow risk of the Company carefully. Cash flow is monitored by the directors on a regular basis and any working capital requirement is funded by cash resources.

Acquisitions may be financed initially using long term loans. Long term loans are raised principally through credit facilities from a range of banks and financial institutions. The Company maintains internal guidelines for interest cover and gearing. Management monitor the Company's current and projected financial position against these guidelines.

The main financial risks arising from the Company's activities are credit, liquidity and currency risks. The Company's policy in respect of credit risk is to require appropriate credit checks on potential customers before sales are made.

The Company's policy in respect of liquidity risk is to maintain readily accessible bank deposit accounts to ensure that the Company has sufficient funds for its operations. The cash deposits are held in a mixture of short-term deposits and current accounts which earn interest at a floating rate.

The Company's policy in respect of currency risk, which primarily exists as a result of foreign currency purchases, is to either sell in the currency of purchase or maintain sufficient cash reserves in the appropriate foreign currencies which can be used to meet foreign currency liabilities or take out forward currency contracts to cover the exposure.

Future developments

The future developments are discussed within the Strategic Report (page 2).

Bytes Software Services Limited

Directors' report (continued) For the year ended 28 February 2023

Qualifying indemnity provision

The Company maintains appropriate directors' and officers' liability insurance on behalf of the directors, general counsel and company secretary. In addition, individual qualifying third party indemnities are given to the directors, general counsel and company secretary which comply with the provisions of Section 234 of the Companies Act 2006 and were in force throughout the year and up to the date of signing the Directors' Report.

Engagement with employees

The Company places huge importance on engagement and communication with its employees and on their wellbeing. It provides regular updates on the performance of the business and changes happening within it direct from the directors and via the Company intranet and Teams site. Training is available for all staff to access through an online Learning Academy and covers a broad range of topics. The Company encourages the employees to submit ideas and feedback and also undertakes staff surveys to canvas views on significant matters.

Diversity and inclusion

The Company is committed to focus on diversity and create a culture of inclusivity within the business so that all staff feel they belong and can speak out. The Company also celebrates employee differences and drives internal conversations to gain a better understanding of the issues in order to develop a plan of action to address them. The Company values each employee and is committed to eradicating all discrimination in the workplace.

Employment of disabled employees

The Company is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. Particular attention is given to the training and promotion of disabled employees to ensure that their career development is not unfairly restricted by their disability, or perceptions of it.

The Company's HR procedures make clear that full and fair consideration must be given to applications made by, and the promotion of, disabled persons. Where an employee becomes disabled whilst employed by the Company, the HR procedures also require that reasonable effort is made to ensure they have the opportunity for continued employment within the Company. Retraining of employees who become disabled whilst employed by the Company is offered where appropriate.

Post balance sheet events

In May 2023 the Company's ultimate parent company, Bytes Technology Group plc, replaced the current Revolving Credit Facility (RCF) with a new RCF. This has no impact on the Company's results reported for FY23. There are no other significant events affecting the Company since the year end.

Bytes Software Services Limited

Directors' report (continued) For the year ended 28 February 2023

Going concern

The Company's business activities, financial position and cash flows, together with the factors likely to affect its future performance and position, are set out in the strategic report on pages 1 - 11. Details of its objectives and policies on financial risk management are set out above.

The Company's going concern analysis reflects the actual trading experience through the financial year to date, as well as detailed financial forecasts for the period up to 31 August 2024.

In making their assessment of going concern, the directors have considered the potential impact of a generalised economic downturn which may result from a combination of factors including general inflation, wage inflation, the conflict in Ukraine, and climate change. If any of these factors leads to a reduction in spending by the Company's customers, there may be an adverse effect on the Company's future turnover, gross profit, operating profit, and debtor collection periods. Under such downsides the directors have factored in the extent to which they might be offset by savings in headcount, salaries, commissions and bonuses and discretionary areas of spend. Full details of the assessment and stress testing undertaken are set out in note 2.4 to the financial statements.

The assessment has also considered the cashflow impact on the Company of being part of the Bytes Technology Group plc, whereby it is required to support other entities in the Group in meeting their financial commitments, most notably in paying dividends to external shareholders and hence having consideration for the going concern position of the Group as a whole. The latter has already been assessed in detail for the same period to 31 August 2024 in the preparation of the Annual Report and Accounts of the Group for the year ended 28 February 2023 and whereby the directors of the Group concluded it to be appropriate that the consolidated financial statements be prepared on a going concern basis.

As a result of the above assessments the directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future, which comprises the period of at least 12 months from the date of approval of the financial statements, that is 31 August 2024. There are no material uncertainties that would prevent the directors from being unable to make this statement. Accordingly, the directors continue to adopt the going concern basis in preparing the Company's financial statements.

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the companies act 2006.

Auditor

The auditor, Ernst and Young LLP, was appointed during the year and will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 10 July 2023 and signed on its behalf.

DocuSigned by:

Tina Sexton

586F8C86C8F84B3...

T Sexton
Director

Bytes Software Services Limited

Directors' responsibilities statement For the year ended 28 February 2023

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 financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Bytes Software Services Limited

Independent auditor's report to the members of Bytes Software Services Limited

Opinion

We have audited the financial statements of Bytes Software Services Limited for the year ended 28 February 2023 which comprise the Statement of Profit or Loss, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 28 February 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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.

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 Company's ability to continue as a going concern for a period until 31 August 2024, being the going concern period.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

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 this report, we do not express any form of assurance conclusion thereon.

Bytes Software Services Limited

Independent auditor's report to the members of Bytes Software Services Limited (continued)

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 the 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 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 Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or 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 or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 15, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Bytes Software Services Limited

Independent auditor's report to the members of Bytes Software Services Limited (continued)

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (United Kingdom Generally Accepted Accounting Practice, FRS 102), the Companies Act 2006 and the relevant tax compliance regulations in the UK.
- We understood how Bytes Software Services Limited is complying with those frameworks by making enquiries of management and those responsible for legal and compliance matters. We corroborated our enquiries through our review of board minutes and discussions with those charged with governance.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud and by assessing key assumptions over significant estimates made by management for evidence of bias. We also considered performance targets and their propensity to influence efforts made by management to manage revenue and earnings. We considered the programmes and controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls.
- Where the risk was considered to be higher, including areas impacting the Company's key performance indicators or management remuneration, we performed audit procedures to address each identified fraud risk or other risk of material misstatement. These procedures included those on revenue recognition and rebates receivables as well as testing manual journals; and were designed to provide reasonable assurance that the financial statements were free from fraud and error.
- We addressed the risk of improper revenue recognition by testing transactions recorded before and after the year end on a sample basis by vouching to evidence that the performance obligations are satisfied, and revenue has been recorded in the correct period. We tested a sample of deferred transactions at the year end and credit notes issued subsequent to the year-end. We also utilised data analytics tools to analyse a full population of sales-related journal entry data to track sales from revenue through to accounts receivable through to cash collection. We used this analysis to validate the appropriateness of transaction flows and tested a sample of transactions to determine if the journals accurately reflected the substance of transactions recorded.
- We addressed the risk of misstatement of rebates receivables by confirming a sample of rebates due from suppliers to third party source documentation including subsequent cash or credit notes received.

Bytes Software Services Limited

Independent auditor's report to the members of Bytes Software Services Limited (continued)

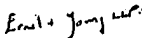
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures included a focus on compliance with the accounting and regulatory frameworks and other relevant legislations through obtaining sufficient audit evidence in line with the level of risk identified, in conjunction with compliance with relevant legislation including tax computations and returns and corroborated that dividend payments complied with the relevant legal requirements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://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.

DocuSigned by:



CCDF49D9AE9A4DC...

James Harris (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Southampton
10 July 2023

Bytes Software Services Limited

Statement of profit or loss For the year ended 28 February 2023

	Note	2023 £000	2022 £000
Turnover	4	905,673	758,799
Cost of sales		(808,282)	(677,739)
Gross profit		97,391	81,060
Administrative expenses		(56,425)	(45,900)
Operating profit	5	40,966	35,160
Interest paid and similar charges	8	(1)	(1)
Profit before tax		40,965	35,159
Tax on profit	9	(8,033)	(6,604)
Profit and total comprehensive income for the financial year		32,932	28,555

There was no other comprehensive income for the 2023 or 2022 and therefore no separate statement of comprehensive income has been prepared.

The notes on pages 24 to 51 form part of these financial statements.

Bytes Software Services Limited

Statement of financial position As at 28 February 2023

	Note	2023 £000	2022 £000
Fixed assets			
Tangible assets	10	5,193	4,988
		<u>5,193</u>	<u>4,988</u>
Current assets			
Stocks	12	3,410	1,682
Debtors: amounts falling due within one year	13	169,756	154,942
Cash at bank and in hand		21,096	23,257
		<u>194,262</u>	<u>179,881</u>
Creditors: amounts falling due within one year	14	(167,593)	(160,196)
Net current assets		<u>26,669</u>	<u>19,685</u>
Total assets less current liabilities		31,862	24,673
Creditors: amounts falling due after more than one year	15	(1,473)	(1,257)
Provisions for liabilities			
Deferred tax	16	(17)	(16)
Net assets		<u><u>30,372</u></u>	<u><u>23,400</u></u>
Capital and reserves			
Called up share capital	17	30	30
Share premium account	19	556	556
Profit and loss account	19	29,786	22,814
Total equity		<u><u>30,372</u></u>	<u><u>23,400</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 10 July 2023

DocuSigned by:

Tina Sexton

586F8C86C8F84B3...

T Sexton
Director

The notes on pages 24 to 51 form part of these financial statements.

Bytes Software Services Limited

Statement of changes in equity For the year ended 28 February 2023

	Called up share capital £000	Share premium account £000	Share based payment account £000	Profit or loss account £000	Total equity £000
At 1 March 2022	30	556	-	22,814	23,400
Comprehensive income for the year					
Profit for the year	-	-	-	32,932	32,932
Total comprehensive income for the year	-	-	-	32,932	32,932
Contributions by and distributions to owners					
Dividends paid or payable	-	-	-	(25,960)	(25,960)
Total transactions with owners	-	-	-	6,972	6,972
At 28 February 2023	30	556	-	29,786	30,372

The notes on pages 24 to 51 form part of these financial statements.

Bytes Software Services Limited

Statement of changes in equity For the year ended 28 February 2022

	Called up share capital £000	Share premium account £000	Share based payment account £000	Profit or loss account £000	Total equity £000
At 1 March 2021	30	556	144	34,036	34,766
Comprehensive income for the year					
Profit for the year	-	-	-	28,555	28,555
Total comprehensive income for the year	-	-	-	28,555	28,555
Contributions by and distributions to owners					
Dividends paid or payable	-	-	-	(39,777)	(39,777)
Share based payment charge	-	-	(144)	-	(144)
Total transactions with owners	-	-	(144)	(11,222)	(11,366)
At 28 February 2022	30	556	-	22,814	23,400

The notes on pages 24 to 51 form part of these financial statements.

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

1. General information

Bytes Software Services Limited is a private company limited by shares incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the Company Information page and the nature of the Company's operations and its principal activities are set out in the strategic report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The presentational and functional currency of these financial statements is GBP. Values are rounded to the nearest thousand.

The comparatives are for the year ended 28 February 2022.

2.2 Exemption from preparing consolidated financial statements

The Company is a parent company that is also a subsidiary included in the consolidated financial statements of its ultimate parent undertaking established under UK law and is therefore exempt from the requirement to prepare consolidated financial statements under section 400 of the Companies Act 2006.

2.3 Financial reporting standard 102 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Basic Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments Issues paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23; and
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Bytes Technology Group Plc for the year ended 28 February 2023 and these financial statements may be obtained from Bytes House, Randalls Way, Leatherhead, Surrey, United Kingdom, KT22 7TW.

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

2. Accounting policies (continued)

2.4 Going concern

The going concern of the Company is dependent on maintaining adequate levels of resources to continue to operate for the foreseeable future. The directors have considered a number of principal risks which are set out in the Company's strategic report in addition to ever present risks such as the Company's exposure to credit risk, liquidity risk, currency risk and foreign exchange risk.

When assessing the going concern of the Company, the directors have reviewed the year-to-date financial actuals, as well as detailed financial forecasts for the period up to 31 August 2024, being the going concern assessment period.

The assumptions used in the financial forecasts are based on the Company's historical performance and management's extensive experience of the industry. Taking into consideration the impact of the current economic conditions and geopolitical environment, along with future expectations, the forecasts have been stress tested to ensure that a robust assessment of the Company's working capital and cash requirements has been performed.

Operational performance and operating model

The Company has reported a further year of strong growth and has achieved double-digit increases in turnover, gross profit, and operating profit compared to prior year, and finished the year with £21.1 million of cash.

During the year customers have continued to move their software products and data off-site and into the cloud, requiring the Company's advice and ongoing support around this, as well as needing flexibility and added security with hybrid working now the norm for many customers.

Resilience continues to be built into the Company's operating model from its wide customer base, high levels of repeat business, strong vendor relationships, increased demand driven by heightened IT security risks, and the back-to-back nature of most of its sales. This is explained further below.

- The Company's income includes a large volume of non-discretionary spend from UK corporates as IT is vital to establish competitive advantage in an increasingly digital age. Public sector organisations have similarly sought efficiencies, resilience, and security within their IT infrastructures. This mix of private and public customers means that a downturn in one area can be compensated for by upturns in others. Risk is further mitigated by the fact that none of the Company's wide range of customers contributes more than 6% of turnover or more than 2% of gross profit.
- Due to the nature of licensing schemes and service contracts, a high proportion of business is repeatable in nature with subscriptions needing to be renewed for the customer to continue to enjoy the benefit of the product or service. The largest software contracts, Microsoft enterprise agreements (EAs), run for three years and it is rare to lose a contract mid-term which mitigates the risk of income reducing rapidly. The Company has a high success rate in securing renewals of existing EA agreements and winning new ones.

Increasingly customers transact their cloud software requirements under usage-based cloud solution provider (CSP) contracts which provide flexibility but also makes the running of many of their key business functions dependent on maintaining these agreements, and reliant on the Company's support managing them.

The high level of customer retention and growth is illustrated by the renewal rate for the year of 115%, a measure of the rate of growth in gross profit from existing customers, who also contributed 96% of total gross profit in the year. The Company will continue to focus on increasing its customer base and spend per customer during the going concern period.

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

2. Accounting policies (continued)

2.4 Going concern (continued)

- With almost 60% of the Company's turnover and over 50% of gross profit generated from sales of Microsoft products and associated service solutions, this is a very important partnership for both parties. As from the customer side, the licensing of a large proportion of EA software over three-year terms reduces the risk of income falling away quickly. Also, with the move towards more agile 'pay as you go' CSP contracts around cloud-based applications, this makes those agreements even more 'sticky' by increasing the dependency of the customer on the cloud infrastructure and products which Microsoft provides.
- Further, it has created the opportunity for the Company to develop a host of skill sets so it is best placed to advise and support the customers in whatever direction they choose to fulfil their licensing requirements from a programmatic, purchasing and consumption perspective. To this end, the Company has attained high levels of Microsoft specialisations, and solution partner designations in numerous Microsoft technology areas. In turn, Microsoft rewards partners who have these awards with additional levels of funding. The directors are engaged directly with Microsoft executives in developing the partnership further and Microsoft business is currently growing at double-digit rates.
- Within the Microsoft program offerings, and also those of other vendors, including dedicated security software providers, the Company has seen an increased demand for security products and functionality to protect customer IT systems. This has arisen from the increased risk of cyber threats and attacks and has generated additional requirements for the Company's support in this area.
- The Company's business is substantially derived from the sale of software which it transacts on a 'back-to-back' basis, meaning all orders placed with vendors follow the receipt of a customer order, and the intangible nature of software products means that the Company is not exposed to inventory risk. Hardware sales are also made on a back-to-back basis, and delivered direct from suppliers to customers, so the Company is not required to invest in, or hold, stock.

As a result of these factors described above, the directors believe that the Company operates in a resilient industry, which will enable it to continue its profitable growth trajectory but are also very aware of the risks which exist in the wider economy.

Whilst the Covid-19 pandemic has had limited negative impact over the past three years, as illustrated by the Company results over that period, the business remains vigilant around the safety of staff at work and ensuring they are all fully equipped to work from home if required to enable smooth and uninterrupted service provision to customers.

Over the past year other risks have become more prominent around energy, wage, and commodities inflation; supply problems caused by the conflict in Ukraine; product shortages; and climate change. These risks align to those identified in our principal risks statement, notably economic disruption, inflation, and attraction and retention of staff. The directors monitor these macroeconomic and geopolitical risks on an ongoing basis. They are considered further below.

Macroeconomic risks

- Energy cost inflation – The business is not a naturally heavy consumer of energy, and hence this element of the overall cost base is very small at less than 0.5% of the total Company administrative expenses. Even a substantial percentage rise would not have a significant impact on our operating profit.

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

2. Accounting policies (continued)

2.4 Going concern (continued)

- Cost of sale inflation – Pricing from our suppliers may be at risk of increasing, particularly those whose underlying currency is USD. However, our commercial model is based on passing on supplier price increases to our customers. During the year the maintenance of our gross profit margin has demonstrated this, despite the fall in the value of sterling over that period. This is one of the biggest focus areas in our business and has been maintained despite market and competitive pressures. Software sales is the biggest component of our GP, hence it's the most susceptible to price pressures and margin squeeze, and yet we have maintained its margin during the year.
- Wage inflation – the business has been facing pressure from wage inflation since the Covid-19 restrictions were eased and the labour market opened up again. Where strategically required we have increased salaries to retain key staff in the light of approaches from competitors, especially where staff have specialist or technical skills, but there is always a line which we will not cross. We monitor our staff attrition rate and maintained a level around 16% which is consistent with last year. We do not believe there has been any significant outflow of staff due to being uncompetitive with salaries. We have a strong, collaborative, and supportive culture and offer our staff employment in a business which is robust and which they are proud of, and this is a key part of our attraction and retention strategy.

Moreover, when we look at our key operational efficiency ratio of operating profit/gross profit we have achieved 42.1% which is ahead of our sustainable target of 40%, hence demonstrating the control over rising staff costs in response to the growth of the business. Whilst we have already aligned staff salaries to market rates, further expected rises have been factored into the financial forecasts in line with those awarded in the past year.

- Interest rates – interest rates rising rapidly in the UK and internationally will have a negative financial impact on many organisations and households. The Company however does not have any debt, nor has it ever needed to call upon the revolving credit facility which is available to all members of the Group which the Company is part of. Therefore, this does not currently, or in the foreseeable future, affect our income statement or cash flow.
- Foreign currency rate changes – as already mentioned above, we have withstood significant reductions in the value of the pound throughout the year and yet maintained our gross margin %. Our foreign currency transactions are only a very small part of our business.
- Inflation and rising interest rates impacting on customer spending – whilst customers may consider reducing spending on IT goods and services, if it is seen as non-essential, we have seen increased spending by our customers as these areas may in fact be a means to efficiency and savings elsewhere. During the Covid-19 pandemic we saw many customers undergo significant IT transformation, trending to the cloud, automation, and managed service and with growing cybersecurity concerns also heightening the requirements for IT security. We are seeing a continuation in this movement and no let-up in demand, as illustrated by our reported trading performance. This is supported by our very robust operating model which has been explained above, with business spread over many customers in repeat subscription programs and service contracts, and high renewal rates.
- Inflation and rising interest rates impacting on customer payments – whilst we saw an increase in debt collection periods during the year, with some customers taking longer to pay, this has reduced towards the end of the year. In part, this is connected with the trend to more cloud-based software programs as noted above under our operating model analysis, whereby customers pay in arrears based on software usage rather than upfront. However, there has been no evidence that customers ultimately do not pay, and we have suffered only a small level of bad debt during the year, £0.1 million against turnover of £905.7 million. As in the previous year almost 40% of our turnover came from the public sector, traditionally very safe and with low credit risk, whilst our corporate customer base includes a range of blue-chip organisations and with no material reliance on any single customer.

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

2. Accounting policies (continued)

2.4 Going concern (continued)

Geopolitical risks

The current geopolitical environment, most notably the conflict in Ukraine, has created potential supply problems, product shortages and general price rises particularly in relation to fuel, gas, and electricity.

- As noted above, increasing energy prices are not having a noticeable impact on our profitability.
- In terms of supply chain, we are not significantly or materially dependent on the movement of goods and hence physical trade obstacles are not likely to affect us directly. Hardware only made up 3% of our turnover during the year and 3% of GP. Whilst we are conscious of the fact that lead times for hardware supply have increased, and this has been a trend over the past two or three years, we have ensured that we have a number of suppliers with substitute, or alternative, technologies which we can rely on if one supplier cannot meet our requirements or time scales; this indicates that we have managed the supply chain well.
- Software sales though continue to be the dominant element of our overall turnover and hence is not inherently affected by cross-border issues.

Climate change risks

The Company does not believe that the effects of climate change will have a material impact on its operations and performance over the going concern review period considering:

- The small number of UK locations it operates from
- A customer base substantially located within the UK
- A supply chain which is not reliant on international trade and does not source products and services from parts of the world which may be impacted more severely by climate change
- It sells predominantly electronic software licences and so has no manufacturing or storage requirements
- Its workforce can work seamlessly from home should any of their normal work locations be impacted by a climatic event, although in the UK these tend to be thankfully infrequent and not extreme.

Climate risks are considered fully in the Task Force on Climate-related Financial Disclosures (TCFD) included in the Annual Report for the Group's ultimate parent company, Bytes Technology Group plc.

Liquidity and financing position

At 28 February 2023, the Company held instantly accessible cash and cash equivalents of £21.1 million.

The balance sheet shows net current assets of £26.7 million at year end, this amount is after the Company paid or declared dividends to its parent company of £26.0 million during the year. Post year end the Company has remained cash positive, and this is expected to remain the case with continued profitable operations in the future and customer receipts collected ahead of making the associated supplier payments.

The Company has access to a Group committed revolving credit facility (RCF) of £30 million with HSBC, available to all entities within Bytes Technology Group plc, the Company's ultimate parent. The facility commenced on 17 May 2023, replacing the Group's previous facility for the same amount and runs for three years, until 17 May 2026. The new facility includes an optional one-year extension to 17 May 2027 and a non-committed £20 million accordion to increase the availability of funding should it be required for future activity. To date, neither the Company nor any group entity has been required to use either the previous or new facilities, and we do not forecast use of the new facility over the going concern assessment period.

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

2. Accounting policies (continued)

2.4 Going concern (continued)

Approach to stress testing

The going concern analysis reflects the actual trading experience through the financial year to date, as well as detailed financial forecasts for the period up to 31 August 2024, being the going concern assessment period. The Company has taken a measured approach to its forecasting and has balanced the expected trading conditions with available opportunities.

In their assessment of going concern, the directors have considered the potential impact of the current economic conditions and geopolitical environment as described fully above, most notably general inflation, wage inflation, the conflict in Ukraine, and climate change. If any of these factors leads to a reduction in spending by the Company's customers, there may be an adverse effect on the Company's future turnover, gross profit, operating profit, and debtor collection periods. Under such downsides the directors have factored in the extent to which they might be offset by reductions in headcount, recruitment freezes, and savings in pay costs (including commissions and bonuses). As part of the stressed scenario, where only partial mitigation of downsides is possible, the directors have confirmed that the RCF would not need to be used during the going concern period up to 31 August 2024.

Details of stress testing

The Company assessed the going concern by comparing a base case scenario to two downside scenarios and in each of the downside cases taking into consideration two levels of mitigation, 'full' and 'partial'. These scenarios are set out below:

- Base case was forecast using the budget approved by the directors for the year ending 28 February 2024 and extended across the first six months of the following year to 31 August 2024
- Downside case 1, Severe but plausible, modelled turnover reducing by 10% year on year, gross profit reducing by 15% year on year and debtor collection periods extending by five days, in each case effective from June 2023
- Downside case 2, Stressed, modelled both turnover and gross profit reducing by 30% year on year and debtor collection periods extending by ten days, again in each case effective from June 2023
- Partial mitigation measures modelled for the downsides were to freeze future pay rises and new recruitment from March 2024 and 'self-mitigating' reduction of commissions in line with falling gross profit
- Full mitigation additionally modelled headcount reductions from March 2024 in line with falling gross profit.

The mitigations applied in the downside scenarios relate to pay costs and headcount which are within the control of the Company to implement quickly in response to any downward trends should they be necessary. While these mitigating actions have only been forecast from March 2024 for the purposes of the going concern assessment, they could be implemented much sooner, notably an earlier recruitment freeze and non-replacement of natural leavers, either immediately or within a small number of months following the decline in income and profits.

Under all scenarios assessed, the Company would remain cash positive throughout the whole of the going concern period with dividends forecast to continue to be paid in line with the Bytes Technology Group plc's dividend policy to distribute 40% of the post-tax pre-exceptional earnings to shareholders.

The directors consider that the level of stress testing is appropriate to reflect the potential collective impact of all the macroeconomic and geopolitical matters described and considered above.

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

2. Accounting policies (continued)

2.4 Going concern (continued)

Going concern conclusion

Based on the analysis described above, the Company has sufficient liquidity headroom through the forecast period. The directors therefore have reasonable expectation that the Company has the financial resources to enable it to continue in operational existence for the period up to 31 August 2024, being the going concern assessment period. Accordingly, the directors conclude it to be appropriate that the financial statements be prepared on a going concern basis.

2.5 Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Company and the amount of turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

The Company generates turnover from both the sale of goods and the rendering of services.

Sale of goods

Turnover from the sale of goods is recognised at the point in time when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of turnover can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Turnover arising from sale of goods comprises the following revenue streams:

- Direct software licence sales;
- Indirect software licence sales; and
- Hardware sales.

Rendering of services

Turnover from a contract to provide services is recognised over the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of turnover can be measured reliably;

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

2. Accounting policies (continued)

2.5 Turnover (continued)

Rendering of services (continued)

- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

Turnover arising from rendering of services comprises the following revenue streams:

- Internally provided consulting services; and
- Externally provided consulting services.

Presentation of turnover

The Company generates turnover in the capacity of both principal and agent. Determining whether an entity is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances.

Turnover generated in the capacity of principal

When acting as principal, the Company recognises turnover at the gross amount of consideration to which it expects to be entitled in exchange for its sale of goods or rendering of services to a customer.

The Company is acting as principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Features that indicate that the Company has such exposure and is, therefore, acting as principal include:

- the Company has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;
- the Company has inventory risk before or after the customer order, during shipping or on return;
- the Company has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and
- the Company bears the customer's credit risk for the amount receivable from the customer.

The directors have determined that the Company is acting as principal for the following revenue streams:

- Indirect software licence sales;
- Internally provided consulting services; and
- Hardware sales.

The judgements made by the directors in concluding that the Company acts as principal for the above revenue streams are disclosed in note 3.

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

2. Accounting policies (continued)

2.5 Turnover (continued)

Turnover generated in the capacity of agent

When acting as agent, in exchange for arranging for the sale of goods or rendering of services to a customer by another party, the Company recognises turnover at the amount of any fee or commission to which it expects to be entitled, or the net amount of consideration that it retains after paying the other party.

The Company is acting as agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. One feature indicating that an entity is acting as agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

The directors have determined that the Company is acting as agent for the following revenue streams:

- Direct software licence sales; and
- Externally provided consulting services.

The judgements made by the directors in concluding that the Company acts as agent for the above revenue streams are disclosed in note 3.

2.6 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Freehold buildings	- 2% per annum
Office furniture, fit out costs and equipment	- 20% straight-line
Computer equipment	- 33% straight-line

Land is not depreciated.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of profit or loss.

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

2. Accounting policies (continued)

2.7 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

2.8 Stock

Stock is stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis.

Finished goods includes asset management subscription licences purchased in advance for specific customers to provide managed services that as yet haven't been consumed.

At each reporting date, stock is assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the profit and loss account.

2.9 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.10 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.11 Financial instruments

The Company primarily enters into basic financial instruments transactions but occasionally enters into certain derivative transactions, such as forward foreign exchange contracts.

The basic transactions result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

The derivative transactions are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss account in finance costs or income as appropriate. The Company does not currently apply hedge accounting for foreign exchange derivatives.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other trade debtors and creditors, are initially measured at the present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

2. Accounting policies (continued)

2.11 Financial instruments (continued)

be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of profit or loss.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.12 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.13 Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to monetary items are presented in the statement of profit or loss within 'administrative expenses'.

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

2. Accounting policies (continued)

2.14 Finance costs

Finance costs are charged to the profit and loss account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.15 Dividends

Dividends paid on ordinary shares are classified as equity and are recognised as distributions in equity.

2.16 Employee share options

Share options are granted to employees under the share option plans of its ultimate parent company, Bytes Technology Group plc. As the grants relate to qualifying service in the Company, the fair values of options granted are recognised as an employee benefit expense in the Company.

The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each period, the Company revises its estimates of the number of options granted that are expected to vest based on the service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of profit or loss.

The Company has a recharge arrangement whereby Bytes Technology Group plc recharges the amount equal to the share-based payment charge to its subsidiaries (which is allocated based on the number of share options granted to the Company's employees) according to the vesting schedule.

2.17 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the statement of profit or loss on a straight-line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.18 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the statement of profit or loss when they fall due. Amounts not paid are shown in creditors as a liability in the statement of financial position. The assets of the plan are held separately from the Company in independently administered funds.

2.19 Interest income

Interest income is recognised in the statement of profit or loss using the effective interest method.

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

2. Accounting policies (continued)

2.20 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income or expense recognised as other comprehensive income, or to an item recognised directly in equity, is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.21 Employee costs

All employee costs are included within administration expenses. This includes wages, commissions, bonuses, pensions and national insurance for administrative, sales and technical employees.

2.22 Asset and liability transfers

Assets and liabilities of fellow group companies that are transferred to the Company where there is already common control, are transferred using predecessor accounting which ordinarily utilises the book values recorded in the fellow group company at the date of transfer.

2.23 Rebates

Rebates from suppliers are accounted for in the period in which they are earned and are based on commercial agreements with suppliers. Rebates earned are mainly purchase volume rebates and are generally short term in nature, with rebates earned but not yet received typically relating to the preceding quarter's trading. Rebate income is recognised in cost of sales in the Statement of Profit and Loss Account and rebates earned but not yet received are included in accrued income in the Statement of Financial Position.

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

3. Judgements in applying accounting policies and key sources of estimation uncertainty

Estimates

In preparing these financial statements, the directors have had to make the following estimates that are not critical:

- Taxation (see note 9)

The Company provides for the future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures.

Deferred tax liabilities are generally provided for in full and deferred tax assets are recognised to the extent that it is judged probable that future taxable profit will arise against which the temporary differences will be utilised.

- Recoverable value of recognised receivables (see note 13)

The recoverability of trade receivables is regularly reviewed in the light of the available economic information specific to each receivable and specific provisions are recognised for balances considered to be irrecoverable.

Judgements

In preparing these financial statements, the directors have had to make judgements when determining whether the Company is acting as a principal or as an agent in presenting revenue for its revenue streams, as set out below:

The directors have determined that the Company is acting as principal for the following revenue streams:

- Indirect software licence sales;
- Hardware sales; and
- Internally provided consulting services.

The key determinants in forming the judgement that the Company acts as principal for the above revenue streams were as follows:

- The Company's exposure to credit risk – for all of the above revenue streams, the Company is responsible for invoicing the customer and for collecting the resulting amounts due. Any loss resulting from the customer's failure to pay rests with the Company;
- The Company's ability to set the selling price in the transaction – for all of the above revenue streams, the Company has full latitude in determining an appropriate margin to apply to the amount charged by the vendor;
- The holding of inventory risk by the Company – for all of the above revenue streams, the Company has inventory risk and is exposed if products are acquired from vendors that cannot be onwards sold to customers; and

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

3. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

Judgements (continued)

- The manner of the Company's remuneration – for all of the above revenue streams, the Company is remunerated through the margin it freely applies to amounts charged by the vendor and not in the form of a fixed percentage or a commission paid by the vendor.
- Primary responsibility for providing the goods or services and for their acceptability by the customer:
 - for internally provided consulting services, this lies with the Company as there are no other parties involved in the process.
 - for hardware, this lies with the Company as it configures the technical specifications for the customer requirements and, due to its physical nature, has responsibility for its safe delivery and bears the exposure for any associated losses.
 - for indirect software sales, due to their intangible nature and the licensing agreement being between the vendor and customer, this responsibility rests more with the vendor, However the director's judgement is that, on balance, the other features listed above result in the Company acting as principal.

For the following revenue streams, the directors have determined that the Company is acting as agent:

- Direct software licence sales; and
- Externally provided consulting services.

The key determinants in forming the judgement that the Company acts as agent for the above revenue streams were as follows:

For direct software licence sales:

Primary responsibility for providing the goods, and for their acceptability by the customer, lies with the software vendor as the licensing agreement is between the vendor and customer. The Company does not bear any credit risk as it is the vendor rather than the Company that is responsible for invoicing the customer and for collecting the resulting amounts due. As the transaction is direct between the vendor and customer, the Company does not have latitude in establishing prices and has no inventory risk. The basis of the Company's remuneration is in the form of a fixed percentage applied to amounts charged by the vendor to the customer.

For externally provided consulting services:

The supplier has significant involvement in pre-sale activity and has the primary responsibility for providing the services to, and for their acceptability by, the customer. Whilst the Company has latitude in establishing prices and bears the customer's credit risk, if the customer is not satisfied with the supplier's performance, the supplier will assume responsibility for making good the service and obtaining customer sign off. The Company will not pay the supplier until customer sign off has been received, hence removing the significant risks associated with the rendering of the service. Therefore, the director's judgement is that, on balance, the primary responsibility lying with the supplier results in the Company acting as agent.

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

4. Turnover

An analysis of turnover by class of business is as follows:

	2023 £000	2022 £000
Software	864,971	727,509
Hardware	22,679	16,070
Services internal ¹	15,513	12,280
Services external ²	2,510	2,940
	<u>905,673</u>	<u>758,799</u>

¹ Provision of services to customers using the Group's own internal resources

² Provision of services to customers using third-party contractors

Analysis of turnover by country of destination:

	2023 £000	2022 £000
United Kingdom	860,490	718,904
Rest of Europe	30,499	32,506
Rest of the world	14,684	7,389
	<u>905,673</u>	<u>758,799</u>

5. Operating profit

The operating profit is stated after charging:

	2023 £000	2022 £000
Depreciation of tangible fixed assets	612	471
Fees payable to the Company's auditors and their associates for the audit of the Company's annual financial statements	227	198
Share based payment	2,151	1,402
Defined contribution pension cost	849	722
Loss on disposal of tangible fixed assets	1	12
Hire of other assets - operating leases	362	266
	<u>3,952</u>	<u>3,671</u>

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

6. Employees

Staff costs, including directors' remuneration, were as follows:

	2023 £000	2022 £000
Wages and salaries	40,626	34,099
Social security costs	5,523	4,521
Cost of defined contribution scheme	849	722
	<u>46,998</u>	<u>39,342</u>
Classified as follows:		
Cost of sales	5,829	3,761
Administrative expenses	41,169	35,581
	<u>46,998</u>	<u>39,342</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2023 No.	2022 No.
Sales – account management	192	143
Sales – support and specialists	127	153
Service delivery	81	58
Administration	108	86
	<u>508</u>	<u>440</u>

Employee numbers has been reclassified this year to split sales support and specialists from service delivery. We believe this provides a more useful presentation of how the Company's employees are deployed. The employee benefit expenses in relation to the service delivery employees are included within cost of sales.

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

7. Directors' remuneration

	2023 £000	2022 £000
Directors' emoluments	1,166	977
Directors' pension costs	24	20
	<u>1,190</u>	<u>997</u>

During the year benefits were accruing to 4 directors (2022: 5) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £423,366 (2022: £314,287).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £4,000 (2022: £4,000).

8. Interest paid and similar charges

	2023 £000	2022 £000
Bank interest paid	<u>1</u>	<u>1</u>
	<u>1</u>	<u>1</u>

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

9. Taxation

	2023 £000	2022 £000
Corporation tax		
Current tax on profits for the year	7,969	6,519
Adjustments in respect of previous periods	63	36
	<u>8,032</u>	<u>6,555</u>
Foreign tax		
Foreign tax on income for the year	-	-
Foreign tax in respect of prior periods	-	-
	<u>-</u>	<u>-</u>
Total current tax	<u>8,032</u>	<u>6,555</u>
Deferred tax		
Origination and reversal of timing differences	57	53
Adjustments in respect of prior periods	(74)	5
Effect of tax rate change on opening balance	18	(9)
	<u>1</u>	<u>49</u>
Taxation on profit on ordinary activities	<u>8,033</u>	<u>6,604</u>

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

9. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2022 - lower than) the standard rate of corporation tax in the UK of 19% (2022 - 19%). The differences are explained below:

	2023 £000	2022 £000
Profit on ordinary activities before tax	40,965	35,159
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2022 - 19%)	7,783	6,680
Effects of:		
Expenses not deductible for tax purposes	435	235
Adjustments to tax charge in respect of previous periods	(11)	(27)
Group relief claimed	(83)	(278)
Other short term timing differences	(91)	(6)
Total tax charge for the year	8,033	6,604

Factors that may affect future tax charges

Effective from 1 April 2023 the UK corporation tax rate increases to 25%, this change has been used to rebase the deferred tax liability in both the current and prior year.

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

10. Tangible fixed assets

	Freehold land and buildings £000	Office furniture, office fit out costs and equipment £000	Computer equipment £000	Total £000
Cost or valuation				
At 1 March 2022	4,470	1,996	1,682	8,148
Additions	-	395	424	819
Disposals	-	(7)	(15)	(22)
At 28 February 2023	<u>4,470</u>	<u>2,384</u>	<u>2,091</u>	<u>8,945</u>
Depreciation				
At 1 March 2022	507	1,589	1,064	3,160
Charge for the year	61	170	381	612
Disposals	-	(7)	(13)	(20)
At 28 February 2023	<u>568</u>	<u>1,752</u>	<u>1,432</u>	<u>3,752</u>
Net book value				
At 28 February 2023	<u>3,902</u>	<u>632</u>	<u>659</u>	<u>5,193</u>
At 28 February 2022	<u>3,963</u>	<u>407</u>	<u>618</u>	<u>4,988</u>

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

11. Investments

	Investments in subsidiary companies £000
Cost or valuation	
At 1 March 2021, 28 February 2022, 28 February 2023	-
	<hr/>
Net book value	
At 1 March 2021, 28 February 2022, 28 February 2023	-
	<hr/> <hr/>

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Nature of business	Class of shares	Holding
Bytes Technology Group Holdings Limited	Dormant	Ordinary	100%
Bytes Technology Training Limited	Dormant	Ordinary	100%
Elastabytes Limited	Dormant	Ordinary	50%

The registered office address of all the above subsidiary undertakings is Bytes House, Randalls Way, Leatherhead, Surrey, KT22 7TW.
Elastabytes Limited was dissolved as a company on 7th March 2023 by the directors.

12. Stock

	2023 £000	2022 £000
Finished goods and goods for resale	3,410	1,682
	<hr/> <hr/>	<hr/> <hr/>

Finished goods includes asset management subscription licence purchased in advance for specific customers that as yet haven't been consumed.

The non-current portion of the licences included within stocks is £396,997 (2022: £124,832).

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

13. Debtors: amounts falling due within one year

	2023 £000	2022 £000
Trade debtors	108,951	91,933
Amounts owed by group undertakings	49,238	57,619
Other debtors	127	-
Prepayments and accrued income	11,411	5,131
Corporation tax	29	259
	169,756	154,942

The impairment loss recognised in the profit or loss for the year in respect of bad and doubtful trade debtors was £1,028,374 (2022: £438,226).

14. Creditors: amounts falling due within one year

	2023 £000	2022 £000
Trade creditors	90,445	82,874
Amounts owed to group undertakings	10,082	10,341
Other taxation and social security	5,631	4,458
Other creditors	17,168	20,389
Accruals and deferred income	44,267	42,134
	167,593	160,196

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

The Company has provided a guarantee against a revolving credit facility (RCF) held by its ultimate parent company but which all entities within the group have access to. The Group has so far not drawn down any amount on this facility. Full details on the RCF are provided in note 24 to the financial statements in the Annual Report and accounts of Bytes Technology Group plc for the year ended 28 February 2023.

15. Creditors: Amounts falling due after more than one year

	2023 £000	2022 £000
Accruals and deferred income	1,473	1,257

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

16. Deferred taxation

	2023 £000	2022 £000
Liability/(asset) at beginning of year	16	(33)
Charged to profit and loss account	1	49
Liability at end of year	17	16

The deferred taxation liability is made up as follows:

	2023 £000	2022 £000
Fixed asset timing differences	505	450
Short term timing differences	(488)	(434)
	17	16

17. Share capital

	2023 £000	2022 £000
Allotted, called up and fully paid		
2,992,126 ordinary shares of £0.01 each (2022: 2,992,126)	30	30

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

18. Dividends

	2023 £000	2022 £000
Interim declared of £Nil (2022: £4.27) per share	-	12,777
Final dividend of £8.68 (2022: £9.02) per share	<u>25,960</u>	<u>27,000</u>
	<u>25,960</u>	<u>39,777</u>

During the year the Company paid a total of £26.0 million of dividends to its shareholders, of which £20.5 million was paid in the financial year (2022: £39.8 million) and £5.5 million was paid post year end (2022: £Nil).

19. Reserves

The Company's capital and reserves are as follows:

Called up share capital

Called up share capital represents the nominal value of the shares issued.

Share premium account

The share premium account includes the premium on issue of equity shares, net of any issue costs.

Share based payment account

The share based payment account represents the cumulative value of share based payment charges.

Profit or loss account

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

20. Share based payments

The Company's ultimate parent company, Bytes Technology Group plc, established several new equity settled share-based payment incentive schemes with effect from its Admission Date to the London Stock Exchange in December 2020. These awards have been accounted for as equity settled share-based payments with the fair value of the awards granted being recognised as an expense over the vesting period. As the schemes relate to employees qualifying service in the Company, the associated charge is also recognised in the Company.

Performance Incentive Share Plan

Options granted in the scheme are for shares in Bytes Technology Group plc. The exercise price of the options is a nominal amount of £0.01. Performance conditions attached to the awards granted in the current year are employee specific, in addition to which, options will only vest if certain employment conditions are met. The fair value of the share options is estimated at the grant date using Monte Carlo pricing model for the element with market conditions and Black Scholes option-pricing model for non-market conditions. The normal vesting date shall be no earlier than the third anniversary of the grant date and not later than the day before the tenth anniversary of the grant date. There is no cash settlement of the options available under the scheme. During the year the Company granted 174,710 (2022: nil) options. For the year ended 28 February 2023, 29,634 (2022: 43,153) options were forfeited, and no options were exercised or expired.

Company Share Option Plan

Options granted in the scheme are for shares in Bytes Technology Group plc. The exercise price of the options granted in the current year was determined by the average of the last three dealing days prior to the date of grant. There are no performance conditions attached to the awards, but options will only vest if certain employment. The normal vesting date shall be no earlier than the third anniversary of the grant date and not later than the day before the tenth anniversary of the grant date. There is no cash settlement of the options available under the scheme. During the year the Company granted 1,905,400 (2022: 1,850,000) options. For the year ended 28 February 2023, 100,400 (2022: 52,000) options were forfeited, and no options were exercised or expired.

Save as You Earn Scheme

Share options were granted to eligible employees under the Save As You Earn Scheme (SAYE). Under the SAYE scheme, employees enter a three-year savings contract in which they save a fixed amount each month in return for their SAYE options. At the end of the three-year period, employees can either exercise their options in exchange for shares in Bytes Technology Group plc or have their savings returned to them in full. The exercise price of the options represents a 20% discount to the average of the last three dealing days prior to 1 June 2022. The fair value at grant date is estimated using a Black-Scholes option-pricing model. There is no cash settlement of the options. During the year the Company granted 411,161 (2022: 654,714) options. For the year ended 28 February 2023, 284,844 (2022: 30,780) options were forfeited, and no options were exercised or expired.

Share-based payment employee expenses

	2023 £000	2022 £000
Equity settled share-based payment expenses	2,151	1,402

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

20. Share based payment (continued)

Movements during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2023 Number	2023 WAEP	2022 Number	2022 WAEP
Outstanding at 1 March	3,083,667	£3.73	704,886	£0.01
Granted during the year	2,491,271	£4.17	2,504,714	£4.74
Forfeited during the year	(414,878)	£3.91	(125,933)	£3.05
Outstanding at 28 February	5,160,060	£3.93	3,083,667	£3.73
Exercisable at 28 February	-	-	-	-

The weighted average expected remaining contractual life for the share options outstanding at 28 February 2023 was 3.09 years (2022: 3.35 years).

The weighted average fair value of options granted during the year was £1.44 (2022: £1.29).

The range of exercise prices for options outstanding at the end of the year was £0.01 to £5.00 (2022: £0.01 to £5.00).

The tables below list the inputs to the models used for the awards granted under the below plans for the years ended 28 February 2023 and 28 February 2022:

	2023 PSP	2023 CSOP	2023 SAYE
Assumptions			
Weighted average fair value at measurement date	£4.19	£1.20	£1.38
Expected dividend yield	1.52%	1.52%	1.54%
Expected volatility	37%	34%	37%
Risk-free interest rate	1.59%	1.72%	1.59%
Expected life of options	3 years	5 years	3 years
Weighted average share price	£4.53	£4.53	£4.48
Model used	Black Scholes & Monte Carlo	Black Scholes	Black Scholes

	2022 CSOP	2022 SAYE
Assumptions		
Weighted average fair value at measurement date	£1.26	£1.38
Expected dividend yield	1.26%	1.26%
Expected volatility	35%	35%
Risk-free interest rate	0.16%	0.22%
Expected life of options	5 years	3 years
Weighted average share price	£5.00	£4.82
Model used	Black Scholes	Black Scholes

The expected life of the options is based on current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility of the Company and publicly quoted companies in a similar sector to the Company over a period similar to the life of the options is indicative of future trends which may not necessarily be the actual outcome.

Bytes Software Services Limited

Notes to the financial statements For the year ended 28 February 2023

21. Pension commitments

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension charge for the year amounts to £848,877 (2022: £722,358). There were no outstanding or repaid contributions at either the beginning or end of the financial year.

22. Commitments under operating leases

The operating lease commitments relate to lease payments for a leasehold property under a non-cancellable operating lease. At 28 February 2023, the Company had minimum lease payments as follows:

	2023 £000	2022 £000
Not later than 1 year	75	231
Within 2 - 5 years	836	752
Later than 5 years	81	347

The minimum lease payments within two to five years include a nine month rent free period agreed with the property owner in exchange for removing the previous five year break clause.

23. Related party transactions

The Company has taken advantage of the exemption available in Section 33.1A of FRS 102 whereby it has not disclosed transactions with the ultimate parent company or any wholly owned subsidiary undertaking of the group.

24. Controlling party

The Company's immediate parent company is Bytes Technology Limited, a company incorporated in the United Kingdom.

The consolidated financial statements are available to the public and may be obtained from Bytes House, Randalls Way, Leatherhead, Surrey, KT22 7TW. They are also available to view and download on the Bytes website at www.bytesplc.com/investors.

25. Post balance sheet events

In May 2023 the Company's ultimate parent company, Bytes Technology Group plc, replaced the current Revolving Credit Facility (RCF) with a new RCF. This has no impact on the Company's results reported for FY23. There are no other significant events affecting the Company since the year end.