

IDE Group Holdings plc

Formerly Coretx Holdings plc

Annual report and financial statements

Registered number SC368538

Year ended 31 December 2017

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Company profile

The principal activities of IDE Group Holdings plc (formerly Coretx Holdings plc) are the provision of network, hosting and managed services to public and private companies. Established in 2005, and admitted to AIM in 2010, the business changed its name to IDE Group Holdings plc on 30 November 2017.

The country of incorporation is Scotland; the Company's registered number is SC368538 and the Company is limited by shares. The main country of operation is the United Kingdom.

Further information on the Company can be found at www.idegroup.com.

Highlights

- Acquisition of 365 ITMS Limited, a collaboration and unified communications services provider in April 2017, for a consideration of £4.6 million.
- Opening of the new IL3-certified Lifecycle centre in Dartford
- Creation of cyber-security services business unit
- Revenues grew by 50% from £43.4 million to £65.0 million, including £10.4 million contribution from 365 ITMS Limited
- Adjusted EBITDA* grew by 10% from £4.9 million to £5.4 million
- Successful rebranding of the Company as IDE Group Holdings plc on 30 November 2017

** Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, impairment charges, exceptional items per note 5, (loss)/gain on disposal of fixed assets and share-based payments*

Post period-end highlights

- Appointment of Bill Dobbie as Interim Non-Executive Chairman following resignation of Jonathan Watts
- Appointment of Julian Phipps as Chief Operating Officer in addition to his role as Chief Financial Officer following the resignation of Andy Ross as Chief Executive Officer
- Reorganisation of the business into two distinct Business Units, Platform Services and Managed Services

Chairman's statement

The year being reported was one of continued change and substantial continued investment as part of our stated strategy to grow and position IDE Group as a key cloud and managed services provider to the UK mid-market.

We now have a modern Platform as a Service ("PaaS") business, providing a portfolio of cloud based services including cyber-security and collaboration services. We invested in this division of our business with the acquisition of 365ITMS in April 2017, strengthening our capabilities in voice and unified communications. In June 2017 we launched a new cyber-security focused service. There has also been further investment in our MPLS network, cloud platforms and we have developed a new hosted voice platform infrastructure, with new strategic partnerships in place with Huawei and Gamma. We intend to build on this platform business during the remainder of 2018 and beyond.

In January 2017, to modernise our Lifecycle Services and to satisfy two significant contracts won, we commissioned a new IL3 certified Lifecycle facility in Dartford. This service provides businesses a secure and cost effective way to replace and refresh their laptop and desktop computer estates.

These positive developments need to be considered alongside the disappointing cash generation which led us to report net debt of £9.9 million as at 31 December 2017. This caused us to initiate an internal review in December 2017 prompting the first phase of a major cost reduction programme in January 2018. This programme was necessary to improve cash generation and reduce overhead costs and, whilst this has initially targeted a reduction of at least £2m from personnel costs and at least £1.5m from third party costs on an annualised basis, we believe further costs still need to be taken out to maintain a more profitable business going forward. These further cost reductions and business efficiency initiatives are being quantified and will be implemented through 2018 and into 2019 to achieve our newly set short and medium term profitability and cash generation goals.

As a result of this ongoing operational review, which will be finalised shortly, and the non-recurring nature of the bulk of the two large lifecycle projects, coupled with the fact that new business generated in early 2018 hasn't replaced the margin lost on contracts and projects that have finished, profitability in 2018 is expected to be significantly lower than 2017, but is expected to improve steadily throughout 2018 and beyond.

It is worth noting that the market for flexible, secure and robust cloud based solutions remains buoyant, and we remain focused on positioning IDE Group to deliver a compelling portfolio of cloud, network, collaboration, security and lifecycle services that can support an increasingly diverse set of customer demands, whilst also achieving margin growth.

The Board sees 2018 as being a year of consolidation and stabilisation where we look to correct structural concerns in our business with a view to strengthening the Board and Executive leadership and our business platforms to create sustainable shareholder returns. Over the next 12 months we will continue to drive down costs within the business whilst improving the Group's Platform Services offerings and increasing the efficiency of Managed Services.

Unfortunately in January 2018, Non-Executive Chairman, Jonathan Watts had to step down from the Board due to health reasons. I would like to thank Jonathan, on behalf of the Board, for his contribution to the business over the last 2 years. I have taken on the role of interim Non-Executive Chairman until such time as a successor is appointed. Former CEO Andy Ross made the decision to step down from his role in March 2018. Julian Phipps, Chief Financial Officer assumed the role of Chief Operating Officer in addition to his CFO duties. We intend to announce planned Board and Executive changes along with the conclusion of our operational review.



Bill Dobbie
Interim Non-Executive Chairman

8 May 2018

Chief Operating Officer's review

During 2017, the Group continued the foundational work started in 2016, focusing on standardising our systems, platforms and processes, and introducing efficiencies, in order to improve the quality of service provided to our customers.

We made major investments in enhancing and broadening our portfolio of products and services over the year. Having always had a strong set of skills-based offerings, our focus moved to developing a stronger set of platform-based offerings.

In early 2017, and in response to customer demand for our device lifecycle services, we commissioned a new IL3 certified lifecycle facility in Dartford, where we now have the capacity to securely configure and deploy up to 500,000 end user devices per annum. These capabilities enabled us to successfully deliver two very large device management contracts with existing customers.

In April 2017, the Group acquired 365 ITMS Limited, greatly strengthening the Group's unified communications, hosted voice, contact centre and wireless capabilities. The Group launched its new Gamma Horizon hosted telephony platform, which has seen solid take up, and allowed the process of decommissioning two legacy voice platforms, migrating customers to this more capable solution.

In response to customer demand for cyber-security solutions, at the end of June 2017 we launched a new cyber security business unit, focusing on delivering a range of cloud based cyber- security and other managed security solutions. This has attracted a healthy number of new name customers to the Group.

We also refreshed and expanded our private cloud platform and continued developing our MPLS network, where we are consolidating five separate networks into a single infrastructure based on Juniper and Huawei equipment. This will provide greater network flexibility, resiliency, and throughput, while enabling us to sell platform services with a lower operational cost.

Throughout the year, we continued to invest in developing our people so that we can better meet our customers' needs. We strengthened our management capabilities through Institute of Leadership and Management ("ILM") training, with 36 middle and senior managers now having achieved formal ILM qualifications. We enhanced our consulting and technical competencies, helping us design and deliver tailored solutions. We developed skills within our sales team, helping its members be more pro-active when engaging with customers, adding more value to them over time. Since launching our online training platform, Learning Cloud, in 2016, employees have completed over 12,000 technical and role-based training courses.

We have also continued our commitment to generating entry level career opportunities, aligning this with our aim to establish a well-balanced employee cost-base, while helping young people start out on promising careers. There are now 27 apprentices working in the business across all functions. Many are reaching the end of their training and will be taking up full time roles during 2018. Our objective is to increase the number of apprentices working in the business year on year.

While we made significant progress towards our long-term goals during the year, overall, profitability and cash generation of the business has been lower than forecast, driven by a number of factors.

In our managed services area, a number of high margin, legacy contracts came to an end of their contract terms during the year. In addition, a large proportion of managed services revenue recorded in 2017 arose from one-off projects, rather than the recurring revenue deals previously prevalent. The margin profile of these projects was also lower than the contracts they replaced. In addition, we were impacted by a six month delay to the start of one of the large lifecycle projects won in the year.

A contract with a major new supplier has failed to deliver expected service levels to customers and the cost savings to the Group that we had anticipated, which is being addressed in 2018

Chief Operating Officer's review *(continued)*

The Group also had the distraction of defending the company in a trademark dispute brought by an IT services business called Coreix. The legal process concluded with us being ordered to rebrand, as such we rebranded to IDE Group on 1 December 2017.

While our strategically important investments will enable us to deliver growth from our platform-based solutions in the future, we need to drive better profit margins and maintain stronger cashflow.

We are addressing these goals in 2018 through a significant rationalisation of our cost base, as well as increasing automation and process efficiency.

We are also differentiating the way we sell and market our services to better target the distinct markets we serve by focussing on two service areas, Platform Services and Managed Services.

- Platform Services will deliver growth through the cloud-based platforms we have been investing in, including private and public cloud hosting, network and connectivity, hosted telephony and unified communications, cybersecurity and managed security.
- Managed Services will continue to deliver the more traditional people-based managed services, including service desk and remote technical support, project management and delivery, onsite and field based engineering and device lifecycle services

This change in sales and marketing approach will be completed in the first half of 2018, and will build a stronger foundation for growth, as well as significantly reducing the underlying operating cost base within the business.

With our broader portfolio of products, and a market full of opportunity, we have the potential to drive further growth in 2018. However, we must ensure the business has an efficient and sustainable operating model and underlying cost base. The changes we are currently undertaking will support these goals. We expect the profitability to be significantly less in 2018 whilst we right-size the business, but expect the business to improve back to double digit EBITDA on growing revenues beyond.

At the same time as making those changes, we will continue to explore acquisition opportunities that strengthen our market position and broaden our geographic reach across the UK.

We look forwards with confidence to the opportunities and challenges that lie ahead.



Julian Phipps
Chief Operating Officer

8 May 2018

Financial review

Corporate activity

In line with its stated buy and build strategy, the Group has spent a lot of time identifying the areas in its portfolio requiring further development, in order to provide our customers with relevant services at affordable prices.

In January 2017, the Group announced its investment in the Dartford Lifecycle facility, providing enterprise-class device management services to our customers, on the back of two customer projects worth in excess of £6 million.

In April 2017, the Group acquired 365 ITMS Limited, a specialist in Unified Communications and Collaboration services, for £4.6 million, settled by way of issuing shares worth £3 million and cash consideration of £1.6 million.

In June 2017, the Group launched its cyber-security services business unit, in order to satisfy the growing demand for these services from our customers.

Results for the year

The results for the year to 31 December 2017 include full year contributions from the 2016 acquisitions of Selection Services Investments Limited (“Selection”) and C4L Group Holdings Limited (“C4L”) and 9 months’ contribution from 365 ITMS Limited, acquired in April 2017. The Group reported total revenues of £65.0 million in the year to December 2017, a 50% increase on the £43.4 million in the year to 31 December 2016 and gross profit of £24.0 million (2016: £17.8 million), a 34% increase.

Administrative expenses excluding impairment, of £27.1 million (2016: £21.6 million) include £1.6 million of exceptional costs (2016: £3.0 million) primarily in relation to restructuring following the acquisitions in 2016 and 2017, a charge of £3.6 million for the amortisation of intangible assets (2016: £3.1 million) and depreciation of tangible fixed assets of £3.2 million (2016: £2.5 million) following the investment in the portfolio of services and the internal platforms.

The Group reviewed the Goodwill arising from the acquisitions of Selection and C4L in 2016 and 365 ITMS in 2017 and booked an impairment charge of £7.2 million on Selection and £2.1 million on C4L. No impairment charge was booked on 365 ITMS.

The Group reported an adjusted EBITDA, defined as earnings before interest, tax, depreciation, amortisation, impairment charges, exceptional items, gains/losses on disposal of fixed assets and share based payments of £5.4 million (2016: £4.9 million), representing an increase of 10%. The Group reported a trading EBITDA, defined as per adjusted EBITDA but before plc costs, of £6.4 million (2016: £5.9 million), reflecting an increase of 9%.

The Group reported a loss before tax of £12.8 million (2016: loss of £4.1 million) after incurring net financial costs of £0.3 million (2016: £0.3 million).

The utilisation of tax losses and a deferred tax credit arising on the amortisation of intangible assets has resulted in a tax credit for the year of £1.6 million (2016: £0.7 million).

The Group therefore reported a loss attributable to shareholders of £11.2 million (2016: loss of £3.4 million), which equates to a basic loss per share of 5.67p (2016: 1.88p). The Group’s adjusted earnings per share, based on the underlying performance of the business, equated to 0.73p per share (2016: 0.90p per share), as set out at note 11.

Balance sheet

The Group has tangible assets of £13.0 million (2016: £13.7 million). Intangible assets of £55.4 million at 31 December 2017 (2016: £60.3 million), including goodwill arising from the acquisition of 365 ITMS of £6.1 million and £1.1 million relating to customer contracts and related relationships within 365 ITMS, with a further £0.8 million of development costs relating to the portfolio of services.

Trade and other receivables of £15.2 million (2016: £8.9 million), include trade receivables of £8.6 million (2016: £5.9 million), an increase of 45% reflecting the growth in turnover, and includes provisions against doubtful debtors of £0.4 million (2016: £0.4 million).

Financial review *(continued)*

Balance sheet *(continued)*

As at 31 December 2017 the Group had a net overdraft position of £1.5 million (2016: net cash position of £1.1 million), finance lease liabilities of £0.8 million (2016: £1.1 million) and had borrowed £7.5 million (2016: £5.5 million) under the RCF facility.

Trade and other payables, excluding deferred income, amounted to £15.4 million (2016: £9.0 million), including trade creditors of £8.8 million (2016: £5.7 million) and accruals of £5.1 million (2016: £1.9 million). Deferred income, arising from customers invoiced in advance of services delivered, amounted to £6.7 million (2016: £5.7 million), whilst provisions, arising primarily from acquisitions in 2016 and 2017, amounted to £1.7 million (2016: £3.0 million).

Dividend

The Directors do not propose a dividend in respect of the current financial year (2016: £nil).

Name change

The Company's name changed to IDE Group Holdings plc from CORETX Holdings plc on 30 November 2017.

Update and outlook for 2018


The Group launched a major cost reduction programme on 2 January 2018, in order to improve cash generation and reduce overhead costs. Further costs still need to be taken out to maintain a more profitable business going forward. This is to reflect the facts that a number of high margin managed service contracts finished during 2017 and a number of one off projects, including the two significant lifecycle contracts won in early 2017, will not generate the same absolute margin in 2018 as in 2017. As a result, the Board now expects that revenue for 2018 will be slightly below that reported in 2017 and expects EBITDA for 2018 to be significantly less than that reported in 2017 although profitability is expected to improve through 2018. Net debt (including leases) as at 31 March 2018 totalled £10.3 million. The further cost reductions and business efficiency initiatives are being quantified and will be implemented through 2018 and into 2019.

The Group expects the investments made in platform services during 2017 will bring rewards and is seeing an improvement in the pipeline of opportunities across the platform services, particularly cyber security and collaboration services.

Going concern

The Directors have prepared detailed cash flow projections including sensitivity analysis on key assumptions. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance and the timing of key strategic events, show the Group will be able to operate within the level and conditions of available funding. Based on the level of support demonstrated by the equity raised to acquire 365 ITMS and consolidating bank facilities during the year, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.



Julian Phipps
Chief Financial Officer

8 May 2018

Board of Directors

The Directors who held office during the period and up to the date of the Annual Report are as follows:

Jonathan Watts (resigned 9 January 2018)
Andy Ross (resigned 22 March 2018)
Julian Phipps
Bill Dobbie
Katherine Ward

A brief biography of the current Directors follows.

Bill Dobbie – Interim Non-Executive Chairman

Bill is an experienced entrepreneur and director specialising in internet, telecoms and technology businesses and founder of CORETX Holdings plc (formerly Castle Street Investments plc and Cupid plc). Bill founded Cupid plc following 7 years at Iomart Group plc in roles spanning founder to non-executive positions. Bill has been a director of Demon Internet, Prestel, Teledata, Scottish Telecom (Thus) and several other companies. Bill is currently a director of Cloudsoft Corporation, a private entity that produces software for managing public and private cloud infrastructure, and Edinburgh Alternative Finance Ltd, a peer to peer lender. He is also a non-executive director of Tag-Games Ltd, a provider of mobile and social games.

On 21 January 2016, Bill resigned as Chairman but remains a Non-Executive Director. On 21 January 2016, Bill resigned as Chairman of the Remuneration Committee, but continues to serve on the Remuneration Committee. Bill also serves on the Audit Committee.

On 9 January 2018, Bill was appointed Interim Chairman following the resignation of Jonathan Watts.

Julian Phipps - Chief Financial Officer, Chief Operating Officer and Company Secretary

On 21 January 2016, Julian was appointed Chief Financial Officer and Company Secretary.

Julian is an experienced chief financial officer having spent over 20 years working in the technology sector. He has worked for a number of large IT and Telecommunications businesses including Update, Northgate Managed Services, SunGard Availability Services and Parity. Prior to working in the technology sector, Julian worked for Coopers and Lybrand in Switzerland, Luxembourg and London.

On 22 March 2018, Julian Phipps was also appointed to the role of Chief Operating Officer following the resignation of Andy Ross.

Katherine Ward - Independent Non-Executive Director

On 21 January 2016, Katherine was appointed as Independent Non-Executive Director.

Katherine has 15 years of experience as an Investment Banker, having worked at Morgan Stanley and Panmure Gordon. Katherine has extensive experience in advising companies on a range of strategic options, and has worked on multiple IPO launches, equity capital fundraisings and M&A transactions. During that time, Katherine was a Financial Services Authority Approved Person and had Nominated Advisor status for listed companies. Katherine is currently Vice President, Corporate Development and Investor Relations, at Wentworth Resource plc, a publicly listed oil and gas exploration and production company. Katherine holds a Bachelor's degree in Economics and Politics from the University of Bristol.

Katherine chairs the Remuneration Committee and the Audit Committee.

Board of Directors *(continued)*

Jonathan Watts - Non-Executive Chairman

On 21 January 2016, Jonathan was appointed Non-Executive Chairman.

Jonathan is an experienced board executive with corporate governance experience within the IT, Telecommunications and Banking sector in the United Kingdom, Australasia and United States of America. Jonathan was President and Founder of GEO Networks, and has held board positions with Alliance and Leicester, Colt Telecommunications, NB3, Bell South and Control Data Corporation.

On 9 January 2018, Jonathan resigned as Non-Executive Chairman and resigned his positions on the Remuneration Committee and the Audit Committee.

Andy Ross - Chief Executive Officer

On 21 January 2016, Andy was appointed Chief Executive Officer.

Andy is an operational partner at MXC Capital Markets LLP, a subsidiary of MXC Capital Limited. Andy has over 35 years of experience in the IT industry and has previously held chief executive officer roles at Northgate Managed Services and Valldata, and senior director roles at Atos, EDS, Sema Group and KPMG.

On 22 March 2018, Andy resigned as Chief Executive Officer.

Corporate Governance statement

As an AIM listed company, IDE Group Holdings plc (IDE Group) is not required to comply with the principles and provisions of the FRC's Corporate Governance Code. The Directors have decided to use the Corporate Governance Code for small and mid-sized quoted companies, as published by the Quoted Companies Alliance, for guidance purposes, and have sought to meet its recommendations in so far as it considers them appropriate for a company of IDE Group's size and nature. This Statement and the Remuneration Committee Report summarises the Board's approach to corporate governance.

The Board of Directors

At 31 December 2017, the Board comprised the Non-Executive Chairman (Jonathan Watts), the Chief Executive Officer (Andy Ross), the Chief Financial Officer (Julian Phipps), one Non-Executive Director (Bill Dobbie) and one Independent Non-Executive Director (Katherine Ward).

On 9 January 2018, Jonathan Watts resigned as Chairman and Bill Dobbie was appointed as Interim Chairman with effect from 1 February 2018. On 22 March 2018, Andy Ross resigned as Chief Executive Officer.

The business and management of the Company and its subsidiaries are the collective responsibility of the Board. At each meeting, the Board considers and reviews the trading performance of the Group. The Board has a formal written schedule of matters reserved for its review and approval. These include the approval of the annual budget, major capital expenditure, investment proposals, the interim and annual results and a review of the overall system of internal control and risk management.

There are two standing Board Committees – Audit and Remuneration. Each of these committees acts within defined terms of reference. Additional information is set out later in this report and in the Directors' Remuneration Report in respect of the Remuneration Committee.

Authority for the execution of the approved policies, business plan and daily running of the business is delegated to the executive Directors. During the year, the Board met formally on 17 occasions.

Katherine Ward is the Senior Independent Non-Executive Director and has served on the Board since 21 January 2016.

The Company's Articles of Association require one third of the Directors to stand for re-election each year at the Annual General Meeting and that each Director should seek re-election every three years. In addition, Directors appointed by the Board during the year must seek re-appointment at the next Annual General Meeting. Accordingly, Katherine Ward will retire and offer herself for re-election at the forthcoming Annual General Meeting.

All Directors have access to the advice of the Company Secretary who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. The Board has a procedure whereby any Director may seek, through the office of the Company Secretary, independent professional advice, at the Company's expense, in furtherance of his or her duties.

Formal agendas and reports are provided to the Board on a timely basis for Board and Committee meetings and the Chairman ensures that all Directors are properly briefed on issues to be discussed at Board meetings. Directors can obtain further advice or seek clarity on issues raised at the meetings from within the Company or from external sources.

All Directors are subject to appraisal by the Board. The Senior Independent Non-Executive Director is responsible for the evaluation of the Chairman.

Board Committees

The Board has established two standing Board Committees to deal with specific aspects of the Board's affairs: Audit and Remuneration Committees. Each of these Committees acts within defined terms of reference.

Corporate Governance statement *(continued)*

Audit Committee

At 31 December 2017, the Audit Committee consisted of Katherine Ward (Chair), Jonathan Watts and Bill Dobbie. Jonathan Watts resigned from the Audit Committee on 9 January 2018 with immediate effect.

The Audit Committee has formal terms of reference (available on request from the Company Secretary). Those include the recommendation, appointment, re-appointment and removal of the external auditors, the review of the scope and results of the interim review and external annual audit by the auditors, their cost effectiveness, independence and objectivity. The Committee also reviews the nature and extent of any non-audit services provided by the external auditors. In addition, the Committee reviews the effectiveness of internal controls, considers the need for an internal audit function and considers any major accounting issues and reports to the Board. The Audit Committee have concluded that due to the current size and complexity of the Company, a formal internal audit function is not required. The Committee reviews the integrity of the financial statements and formal announcements. The Executive Directors are not members of the Committee but attend the meetings by invitation as necessary, to facilitate its business.

The Chief Financial Officer monitors the level and nature of non-audit services and specific arrangements are raised for approval by the Audit Committee as appropriate. The Audit Committee reviews non-audit fees and considers implications for the objectivity and independence of the relationship with external auditors. The Board is satisfied that the Chair of the Audit Committee has recent and relevant financial experience.

Remuneration Committee

At 31 December 2017, the Audit Committee consisted of Katherine Ward (Chair), Jonathan Watts and Bill Dobbie. Jonathan Watts resigned from the remuneration committee on 9 January 2018 with immediate effect.

Details of the Committee and its policies are set out in the Remuneration Committee report. The Committee has formal terms of reference (available on request from the Company Secretary).

Attendance at Board and Committee Meetings

Attendances of Directors at Board and committee meetings convened in the year, and which they were eligible to attend, are set out below:

	Monthly Board Meetings	Other Board Meetings	Remuneration Committee	Audit Committee
Number of meetings in year	12	5	4	3
Jonathan Watts – Chairman	12/12	3/5	4/4	3/3
Andy Ross – Chief Executive Officer	12/12	5/5	-	-
Julian Phipps – Chief Financial Officer	12/12	5/5	-	-
Bill Dobbie – Non-Executive Director	12/12	3/5	4/4	3/3
Katherine Ward – Non-Executive Director	12/12	3/5	4/4	3/3

Corporate Governance statement (continued)

Internal control

The Board has overall responsibility for the Group's system of internal controls and for reviewing its effectiveness. The implementation and maintenance of the risk management and internal control systems are the responsibility of the Executive Directors and senior management. The internal control system is designed to manage risk rather than eliminate it and can therefore only provide reasonable and not absolute assurance against material misstatement or loss. In accordance with the Turnbull Guidance on Internal Control, the Group has an on-going process for identifying, evaluating and managing the significant risks faced by it.

The Group is committed to maintaining high standards of business conduct and operates under an established internal control framework covering financial, operational and compliance controls. This is achieved through an organisation structure that has clear reporting lines and delegated authorities, which are clearly defined. Management monitors the risk and performance of the Group. In addition, the Group maintains written processes to control expenditure, authorisation limits, purchase ordering, sales order intake, project management and assets to the extent applicable given the changes in the Group's activities during the year and up to the date of the approval of the Annual Report.

Financial control

The Board receives monthly financial information which includes key performance and risk indicators and the Chief Executive reports on significant changes in the business and the external marketplace to the extent that they represent risk. There is an established budgetary system with an annual budget approved by the Board. The Board reviews the results monthly against budget and forecasts, together with other business measures.

The principal treasury related risks are documented and approved by the Board.

Relations with shareholders and investors

Copies of the Annual Report are issued to all shareholders and copies are available on the Group's website www.idegroup.com. The unaudited Interim Report is also available on the Group's website. The Group makes full use of its website to provide information to shareholders and other interested parties. The Company Secretary also deals with a number of written or e-mailed enquiries throughout the year.

Shareholders are given the opportunity to raise questions at the Annual General Meeting and the Directors are available both prior to and after the meeting for further discussion with shareholders.

During the year, the Chief Executive Officer and the Chief Financial Officer met with institutional investors after the announcement of interim and year-end results. Additional meetings were arranged by the Group's brokers, N+1 Singer Capital Markets Limited. Feedback arising from these meetings was communicated to the Board and the Company Secretary also reported to the Board on feedback from shareholders.

Katherine Ward, as Senior Independent Non-Executive Director, is available to shareholders if they wish to raise any matters that communication through the normal channels of Non-Executive Chairman or Chief Operating Officer/Chief Financial Officer has failed to resolve, or for which, such communication is inappropriate.

Corporate Governance statement *(continued)*

Substantial Shareholders

At 31 December 2017 and at 11 April 2018, being the latest practicable date before the publication of the Annual Report, the Company has been notified of the following significant interests in its Ordinary, voting share capital:

Shareholder name	31 December 2017	31 December 2017	11 April 2018	11 April 2018
	Number	%	Number	%
MXC Capital Limited ¹	42,160,000	21.00	43,960,000	21.90
Kestrel Partners LLP ²	35,577,206	17.72	36,154,771	18.01
Liontrust Asset Management	22,122,270	11.02	22,101,089	11.01
Bill Dobbie ³	17,756,053	8.85	17,756,053	8.85
Matt Hawkins ⁴	16,370,627	8.16	16,370,627	8.16
Coltrane Asset Management	14,297,562	7.12	14,297,562	7.12
LMS Capital	9,826,400	4.90	9,826,400	4.90
Richard Griffiths	7,177,712	3.58	7,177,712	3.58
Elevage Limited	6,666,668	3.32	6,666,668	3.32

1. MXC Capital Limited is a related party; Andy Ross, former Chief Executive Officer, was an operational partner until 31 July 2017 of MXC Capital Markets LLP, a subsidiary of MXC Capital Limited
2. Max Royde, a former Director of the Company is Chief Executive Officer of Kestrel Partners LLP
3. Current Director of the Company
4. Former Director of the Company



Julian Phipps
Company Secretary

8 May 2018

Remuneration Committee report

Remuneration Committee

At 31 December 2017, the Remuneration Committee comprised Katherine Ward (Chair), Jonathan Watts and Bill Dobbie. Jonathan Watts resigned from the Remuneration Committee on 9 January 2018 with immediate effect.

The Committee makes recommendations to the Board, within agreed terms of reference, on the remuneration and other benefits, including bonuses and share based payments, of the Executive Directors.

In considering the remuneration for the year, the Committee consulted with the Executive Directors about its proposals. The Board sets the fees payable to the Non-Executive Directors.

Remuneration policy

The Remuneration Committee is aware that the remuneration package should be sufficiently competitive to attract, retain and motivate individuals capable of achieving the Group's objectives and thereby enhancing shareholder value.

Basic salary and benefits

Basic salaries for the Executive Directors are reviewed in January each year. The benefits provided to the Executive Directors may include contributions to a Group defined contribution pension scheme, private medical insurance for themselves, their spouse and their children, life assurance cover of 4 times salary, critical illness and income protection cover, a company car allowance and annual leave of 25 days.

Performance related bonus

The Remuneration Committee determines the criteria for the award of performance bonuses for the Executive Directors in advance of each year. The bonuses are pensionable. Non-Executive Directors do not receive a bonus.

Fees

The Board, within the limits stipulated by the Articles of Association and following recommendations by the Executive Directors, determines Non-Executive Directors' fees. The annual fees are £50,000 (2016: £50,000) for the Chairman and £30,000 (2016: £30,000) for the Non-Executive Directors. An additional annual fee of £5,000 (2016: £5,000) is paid to the Independent Non-Executive Director for chairing the Audit and Remuneration Committees. The Chairman is entitled to private medical cover for himself and his spouse.

Service contracts

The Company's policy is for all Executive Directors to have service contracts with provision for termination of no more than six months' notice. The service contracts of the Executive Directors contain restrictive covenants for a period of twelve months following termination of their employment.

Non-Executive Directors have letters of appointment. Appointments can be terminated by the Company giving three months' notice or the individual giving three months' notice. The remuneration of the Non-Executive Directors takes the form solely of payments which are not pensionable.

The details of the Executive Director and Non-Executive Director service contracts are summarised below:

Remuneration Committee report *(continued)*

Service Contracts (continued)

	Contract date	Contract expiry date	Normal notice period
Executive Directors			
Andy Ross (resigned 22 March 2018)	21 January 2016	22 September 2018	6 months
Julian Phipps	21 January 2016	-	6 months
Non-Executive Directors			
Jonathan Watts (resigned 9 January 2018)	21 January 2016	9 April 2018	3 months
Bill Dobbie	31 December 2015	21 January 2019	3 months
Katherine Ward	21 January 2016	21 January 2019	3 months

Katherine Ward retires in line with the terms of the articles of the Company and being eligible, offers herself for re-election at the forthcoming Annual General Meeting.

Directors' emoluments

For Directors who held office during the year, emoluments for the year ended 31 December 2017 were as follows:

	Salary/fees £	Redundancy £	Benefits £	Bonus £	Pension £	2017 total £	2016 total £
Executive							
Andy Ross ¹	200,000	-	7,200	50,000	12,432	269,632	193,052
Julian Phipps	140,000	-	7,000	37,500	8,820	193,320	216,695
Mathew Hawkins	-	-	-	-	-	-	79,830
Simon Mewett	-	-	-	-	-	-	153,425
Niall Stirling	-	-	-	-	-	-	136,095
Non-Executive							
Jonathan Watts	50,000	-	2,935	-	-	52,935	48,605
Bill Dobbie	30,000	-	-	-	-	30,000	30,000
Katherine Ward	35,000	-	-	-	-	35,000	33,026
Max Royde	-	-	-	-	-	-	1,731
Total	455,000	-	17,135	87,500	21,252	580,887	892,459

1. Directors emoluments to Andy Ross were paid as follows:

- An annual salary of £180,000 from 1 January – 31 July 2017, increasing to £200,000 from 1 August – 31 December 2017, paid monthly by IDE Group Manage Limited, a Group subsidiary company; and
- A monthly fee of £1,666.67 paid to MXC Advisory Limited, a subsidiary company of MXC Capital Limited, for the period from 1 January – 31 July 2017.

The Executive Directors salaries are paid from subsidiary companies within the Group. The Non-Executive Director fees and the fee to MXC Advisory Limited for Andy Ross' services to 31 July 2017 are paid by the Company.

Remuneration Committee report *(continued)*

Directors' interests in share options

The interests of the Directors at 31 December 2017 in options over the ordinary shares of the Company were as follows:

Name of Director	At 31/12/16	Granted	Lapsed	At 31/12/17	Exercise price	Market price at date of award	Date of grant	Date from when exercisable	Expiry date
Andy Ross	1,206,833	-	-	1,206,833	£0.30	£0.3950	16 Mar 2016	21 Jan 2019	21 Jan 2023
Julian Phipps	603,417	-	-	603,417	£0.30	£0.3950	16 Mar 2016	21 Jan 2019	21 Jan 2023
Jonathan Watts	666,666	-	-	666,666	£0.30	£0.3925	4 May 2016	21 Jan 2019	21 Jan 2021
Total	2,476,916	-	-	2,476,916					

The options award to Jonathan Watts lapsed on 9 January 2018 when he resigned and the options awarded to Andy Ross lapsed on 22 March 2018 when he resigned.

Share price

The market price of the Company's shares on 31 December 2017 was 28.75p per share. The highest and lowest market prices during the year were 36.7p and 27.0p respectively.



Katherine Ward
Chair, Remuneration Committee
On behalf of the Board

8 May 2018

Strategic report

Review of the business

A detailed review of the business is set out in the Chairman's Statement, Chief Operating Officer's Review and the Financial Review. Included in these reviews are comments on the key performance indicators that are used by the Board on a monthly basis to monitor and assess the performance of the business, including the revenue and gross margin arising from each line of business, revenue and EBITDA per head, the value of new orders secured by the Group during the year and the net cash from operating activities derived by the business.

In April 2017, the Group acquired 365 ITMS Limited ("365 ITMS"), a unified communications and collaboration services provider, for £4.6 million, settled in shares and cash. In January 2016, the Group acquired Selection Services Investments Limited ("Selection"), the parent of a group providing managed IT Solutions and Cloud and network services, for £34.8m, settled in shares and cash. In February 2016, the Group acquired C4L Group Holdings Limited ("C4L"), a network services and data centre hosting group, for £20.2m, settled in shares and cash.

The Consolidated Income Statement for the year is set out on page 29. The results for the year to 31 December 2017 include full year contributions from Selection (now rebranded as IDE Group Manage) and C4L (now rebranded as IDE Group Connect) and nine months contribution from 365 ITMS. The results for the year to 31 December 2016 included eleven and a half months' contribution from Selection and ten and a half months' contribution from C4L. The Group reported total revenues in 2017 of £65.0 million (2016: £43.4 million).

Operating loss on continuing operations was £12.5 million (2016: loss of £3.8 million) after booking an impairment charge of £9.3 million against the goodwill arising on the acquisitions of Selection and C4L. The adjusted EBITDA* of the Group was £5.4 million (2016: £4.9 million). The Directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: £nil).

As at 31 December 2017 the Group was overdrawn by a net £1.5 million (2016: cash balances of £1.1 million).

At 31 December 2017, the Board comprised five Directors (2016: five); four (2016: four) of which are male and one (2016: one) is female. At 31 December 2017, the Group's Senior Management consists of 33 individuals (2016: 32), 24 (2016: 21) of which are male and 9 (2016: 11) are female. At 31 December 2017, the Group had 525 employees including Directors (2016: 401), of which 416 (2016: 318) are male and 109 (2016: 83) are female.

Principal risks and uncertainties

Identifying, evaluating and managing the principal risks and uncertainties facing the Group is an integral part of the way the Group does business. There are policies and procedures in place throughout the operations, embedded within our management structure and as part of our normal operating processes.

The Group's compliance officer maintains a business risk register which is reviewed by the Board on a quarterly basis. Each risk has an owner on the Group's executive committee and is assigned a consequence and probability value, multiplied to give a risk value. The impact, measures in place and tactics to mitigate risks are assessed on a regular basis. The risk categories, set out below, have been identified by the Board as those currently considered to potentially have the most material impact on the Group's future performance. In addition to these risks, note 25 contains details of financial risks.

Market and economic conditions

Market and economic conditions are recognised as one of the principal risks in the current trading environment. The risk is mitigated by the monitoring of trading conditions and changes in government legislation, the development of action plans to address specific legislative changes and the constant search for ways to achieve new efficiencies in the business without impacting level of service. The Group is currently evaluating the impact of the General Data Protection Regulation legislation on its business and is developing a strategy to support its clients, who will also be affected by this legislation. The Group has also discussed the potential impact of "Brexit" with a number of key clients who will be directly affected, to ensure our services are relevant in the future economic environment.

* Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, impairment charges, exceptional items, (loss)/gain on disposal of fixed assets and share-based payments

Strategic report *(continued)*

Reliance on key personnel and management

The success of the Group is dependent on the services of key management and operating personnel. The Directors believe that the Group's future success will be largely dependent on its ability to retain and attract highly skilled and qualified personnel and to expand, train and manage its employee base. During the year, the Group has strengthened its senior management team through external recruitment and internal promotion, rolled out a new employee learning and training solution across the Group and has implemented a new apprenticeship scheme. The Group has introduced a number of employee benefits and a core set of values to encourage employees to establish an identity with the Group and to mitigate the risk of losing skilled and qualified individuals.

Competition

The Group operates in a highly competitive marketplace and while the Directors believe the Group enjoys significant strengths and advantages in competing for business, some of the competitors are much larger with considerable scale that could allow them to offer similar services for lower prices, thus impacting the Group's ability to win new business. The Group monitors competitors' activity and constantly reviews its own services and prices to ensure a competitive position in the market is maintained.

Technology

The market for the Group's services is in a state of constant innovation and change. The Group devotes significant resource to the development of new services, ensuring new technologies can be incorporated and integrated with the Group's core services. The nature of the Group's services means that they are exposed to a range of technological risk, such as viruses, hacking and an ever-changing spectrum of security risk. The Group maintains constant proactive vigilance against such risks and maintains membership of some of the highest levels of security accreditation as part of the service it offers its customers.

Infrastructure failure

The Directors believe that one of the key differentiators the Group offers is that its services are provided over its own controlled and managed infrastructure, such as its own networks and data centre. Whilst this provides customers with comfort over the resilience and reliability, the Group is also exposed to risks of infrastructure failure. A critical element of the Group's operating methodologies and procedures is to mitigate such risks through the careful construction, maintenance and management of its infrastructure. All networks and data centre have fully resilient fail-over procedures with regular testing of back-up and recovery plans.

Strategy

The market for network, cloud and IT managed services in the United Kingdom is highly fragmented and is served by a broad spectrum of businesses from global telecommunication companies through hardware and software providers, system integrators and a range of independent managed service providers of varying sizes through to companies providing individual elements of the IT managed services spectrum. The market is growing, driven by the continued move towards off-premise solutions and mobile access to secure services.

The Group positions itself in the market as being able to combine the benefits of its network and data centre with a flexible and technically skilled workforce able to deliver and support critical services and solutions in a highly secure environment. The Group seeks to differentiate itself in three distinct ways:

- Innovation – innovation in the design and delivery of services;
- Reliability – the right technical skills organised in the right way, to give predictable high quality results; and
- Value – service offerings that are designed to offer value for money to mid-market customers.

Strategic report *(continued)*

Strategy *(continued)*

Through these differentiators, the Group aims to attract new customers and to deepen and broaden the relationship with existing customers. The Board's strategy for growth comprises:

- Ongoing investment in expanding and enhancing our own infrastructure so that we can provide our customers with the very highest level of security and service;
- Efficient use of our scale and resources to explore and invest in new technologies so that our customers can benefit from the high levels of innovation across the whole industry; and
- Expansion through suitable acquisitions to enhance the business.

Our acquisition criteria are strict and mean that we would only consider buying a business which is similar to our own, would increase earnings, have high recurring revenues, have synergies available and would not over-leverage the Group.

The Board believes that the Group's position between the very large system integrators and network operators and the smaller competitors that may lack delivery structure, reputation, reliability and financial strength is a very compelling one. The Group has a strong and reliable set of core infrastructure and has developed a delivery model that provides assurance and certainty for customers. This underlying platform is the core strength of the Group and the Group will continue to consider augmenting its underlying organic growth with acquisitions to leverage this platform, should there be a compelling strategic and financial case.

On behalf of the Board



Julian Phipps
Company Secretary

8 May 2018

24 Dublin Street
Edinburgh EH1 3PP

Directors' report

The Directors present their report, together with the audited consolidated and Company financial statements for the year ended 31 December 2017.

Principal activity

The principal activity of the Group during the year was to supply network, cloud, collaboration, security and IT managed services. The Company is a holding company.

On 30 November 2017, the Company changed its name to IDE Group Holdings plc from CORETX Holdings plc.

Review of the year

The review of the year and the Directors' strategy are set out in the Strategic Report.

Dividends

The Company did not pay a dividend during the year ended 31 December 2017 (2016: £nil). The Directors do not recommend the payment of a dividend at 31 December 2017 (2016: £nil).

Directors

The Directors who held office during the year and up to the date of the Annual Report are as follows:

Jonathan Watts (resigned 9 January 2018)
Andy Ross (resigned 22 March 2018)
Julian Phipps
Bill Dobbie
Katherine Ward

Company Secretary

Julian Phipps

Details of the Directors and Company Secretary of the Company in office at the date of this report, and each officer's qualifications, experience and special responsibilities are set out on pages 7 and 8.

Details of the Directors' service contracts and their respective notice terms are detailed in the Remuneration Committee report.

The interests of the Directors at the end of the year in the ordinary shares of the Company at 31 December 2017, together with their interests at 31 December 2016 were as follows:

	Number of ordinary shares	
	31 December 2017	31 December 2016
Bill Dobbie	17,756,053	14,676,053
Jonathan Watts	83,330	83,330
Katherine Ward	16,666	16,666

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained Directors' and Officers' liability insurance throughout the financial year in respect of itself and its Directors.

Katherine Ward retires in line with the terms of the articles of the Company and being eligible, offers herself for re-election at the forthcoming Annual General Meeting.

Directors' report *(continued)*

Staff policies

The Group's employment policies are designed to ensure that they meet the statutory, social and market practices in the United Kingdom where the Group operates. The Group systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Group is encouraged, as achieving a common awareness on the part of all employees on the financial and economic factors affecting the Group, plays a major role in maintaining its relationship with its staff.

The Group is committed to employment policies, which follow best practice based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The Group gives full and fair consideration to applications for employment for disabled persons, having regard to their particular aptitude and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. If members of staff become disabled, the Group continues employment, either in the same or an alternative position, with appropriate retraining being given, if necessary.

Political donations

The Group and Company have not made any political donations in the year ended 31 December 2017 (2016: nil).

Auditors

BDO LLP were appointed auditors during the year. A resolution is to be proposed at the forthcoming AGM for the re-appointment of BDO LLP as auditors to the Company, at a rate of remuneration to be determined by the Audit Committee.

Financial risk management objectives and policy

The Company's financial risk management objectives and policies are described in note 25 to the financial statements. The key objectives are:

- **Cash flow interest rate risk** - The Group receives interest on cash and cash equivalents and pays interest on its borrowings.

Borrowings at variable rates expose the Group to cash flow interest rate risk. During the year ended 31 December 2017, the Group's borrowings at variable rate were denominated in Pounds Sterling with interest linked to Sterling interest rates.

The impact on post-tax profit and equity of a +/- 1% shift in the interest rate would not be material.

- **Price risk** - The Group is not exposed to significant commodity or security price risk.
- **Credit risk** - Credit risk is managed at a subsidiary level. Credit risk arises from cash and cash equivalents as well as credit exposures to customers, including outstanding receivables. Individual risk limits are set based on internal and external ratings and reviewed by management. The utilisation of credit limits is regularly monitored with appropriate action taken by management in the event of the breach of a credit limit. As at 31 December 2017, trade receivables of £0.4 million (2016: £0.4 million) were impaired and fully provided. As at 31 December 2017, trade receivables of £0.9 million (2016: £0.7 million) were past due but not impaired.
- **Liquidity risk** - Management reviews cash forecasts of trading companies of the Group in accordance with practice and limits set by the Group. The Group's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these.

Directors' report *(continued)*

Disclosure of information to the auditors

The Directors, who were members of the Board at the time of approving the Directors' Report as listed on page 19. Having made enquiries of the fellow Directors, each of the Directors confirms that:

- To the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Group's auditors are unaware; and
- Each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditors are aware of that information.

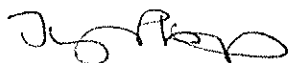
Subsequent events

Jonathan Watts resigned as Chairman on 9 January 2018 and was replaced by Bill Dobbie as Interim Chairman. Andy Ross resigned on 22 March 2018 and Julian Phipps assumed the role of Chief Operating Officer. Options awarded to both resigning Directors lapsed upon their resignation date.

Future developments

Future developments and current trading and prospects are set out in the Chairman's Statement, the Chief Operating Officer's Review and the Financial Review.

On behalf of the Board



Julian Phipps
Director

8 May 2018

24 Dublin Street
Edinburgh
EH1 3PP

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.



Julian Phipps
Director
On behalf of the Board

8 May 2018

Independent auditor's report to the members of IDE Group Holdings plc

Opinion

We have audited the financial statements of IDE Group Holdings plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the Consolidated Income statement, Consolidated Statement of Comprehensive Income, Consolidated and Company Statement of Financial Position, Consolidated and Company Statement of Changes in Equity, Consolidated and Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

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

Independent auditor's report to the members of IDE Group Holdings plc *(continued)*

Revenue recognition

Key audit matter

The Group's revenue recognition policy is included within the accounting policies in note 1 and the components of revenue are set out in note 2.

The Group's revenue is a key performance indicator for the market upon which the results of the Group will be assessed. Management exercises judgement in recognising revenue arising from the provision of services where contracts are ongoing at the year-end. Revenues are recognised in accordance with underlying contracts, unless the contract outcome cannot be reliably determined, in which case, revenue is only recognised to the extent that incurred costs are recoverable.

Based on the above revenue is accrued or deferred appropriately.

In view of the judgements involved we considered that these matters gave rise to a significant risk of misstatement in the financial statements.

Significant risks over revenue recognition include:

- Inherent fraud risk in respect of overstatement of revenue and accrued income and the understatement of deferred revenue;
- Incorrect calculation and appropriate judgement in the estimation of contract revenues to be deferred;

Response

We reviewed the revenue recognition policy applied to each of the Group's revenue streams and considered their compliance with IAS18 'Revenue'.

We audited a sample of revenue transactions for each material revenue stream to check the existence of revenue and that it was accurately recorded in the correct accounting period. This testing was performed through agreement to contract, recalculation of revenue recognition and checking recognition to the accounting system.

We tested deferred revenue by re-performing calculations for a sample of deferred balances. We reviewed management's assumptions relating to appropriate revenue deferral for contracts and tested these assumptions to supporting documentation.

Accrued income balances were agreed to supporting documentation such as contracts and revenue recognition confirmed. Where applicable, balances were confirmed to post year end invoice.

Independent auditor's report to the members of IDE Group Holdings plc *(continued)*

Accounting for business combinations

Key audit matter

The Group's accounting policy for the basis of consolidation is included within the accounting policies in note 1 and detail of the business combination during the year is set out in note 6.

During the year the Group acquired 100% of the share capital of 365 ITMS Limited, paid by £1.6m of cash and £3m through the issue of 9,826,400 ordinary shares in IDE Group Holdings plc.

IFRS 3 requires management to identify and recognise all the purchased assets and liabilities at their fair value, which includes all separately identifiable assets, such as intellectual property, customer lists and brand.

This valuation requires management to make estimates and judgements as set out in note 1.30. As a result of their valuation, management have identified £6,125,000 of goodwill and £1,111,000 of customer contracts and related relationships.

In view of the judgements involved, we considered that these matters gave rise to a significant risk of misstatement in the financial statements.

Response

We reviewed the Group's basis of consolidation accounting policy applied to the acquisition and considered its compliance with IFRS 3 'Business Combinations'.

We audited management's assessment of the assets and liabilities acquired and their allocation of fair value to those assets. We critically evaluated the assets and liabilities identified using our understanding of the business.

We used a BDO valuations expert to challenge the assumptions made in the recognition and valuation of intangible assets through a review of the mechanics of the group's valuations assessment, including evaluation of model inputs and recalculation of discount rates used. We also challenged management's assumptions in the useful economic life of assets recognised.

We reviewed performance and outcomes post-acquisition to ensure that fair values were appropriately supported.

Independent auditor's report to the members of IDE Group Holdings plc (continued)

Carrying value of intangible assets

Key audit matter

The Group's accounting policy for intangible assets is included within the accounting policies in note 1 and the components of intangible assets are set out in note 13.

Acquisitions have given rise to significant intangible asset balances. At 31 December 2017, prior to any impairment review, the group's intangible assets comprise £38,381,000 of goodwill, £1,067,000 of trademarks, £24,346,000 of customer contracts and related relationships and £895,000 of technology.

In accordance with IAS 36, at the end of the reporting period, management have assessed whether there is any indication that the above assets may be impaired and have identified impairment indicators.

Due to the impairment indicators management have estimated the recoverable amount of each asset and impaired to that value where recoverable amount is less than carrying value.

The impairment identified by management is a £9,339,000 reduction in the value of group goodwill. This relates to goodwill from the acquisition of Selection Services Investments Limited and subsidiaries (now IDE Group Limited) on 21 January 2016 and the acquisition of C4L Group Holdings Limited and subsidiaries (now IDE Group Subholdings Limited) on 16 February 2016.

The resultant carrying value of assets at year-end, post impairment, is £29,042,000 of goodwill, £1,067,000 of trademarks, £24,346,000 of customer contracts and related relationships and £895,000 of technology.

When assessing recoverable amount, management exercises significant judgement.

In view of the judgements involved, we considered that these matters gave rise to a significant risk of misstatement in the financial statements.

Response

On finite life intangible assets, we have reviewed management's assessment of whether any IAS 36 'Impairment of Assets' indicators had been identified and performed our own assessment of such based on our knowledge of the group's business and activities and from discussion with management.

Where an indicator of impairment has been identified and for goodwill, being an infinite life intangible asset, we have audited management's impairment assessment.

At a Cash Generating Unit level, we have evaluated and sceptically challenged management's assumptions used in assessing the recoverable amount of the applicable intangible assets, including goodwill. In particular, revenue, profit margins and the timing and quantum of future cash flows and discount rates used.

Our audit of the Group's impairment assessments has included using a BDO valuations expert where applicable.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower level, "performance materiality", to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the Group financial statements as a whole was set at £320,000. This was determined with reference to the Group's revenue. Revenue is considered the most appropriate measure in assessing the performance of the Group given the Group's loss before tax. Performance materiality was set at 75% of the Group materiality level. The performance materiality level was set based upon there being a small number of material components within the Group, that we did not expect there to be a high value of misstatements and that the aggregation effect of planned testing was deemed to be low. Where financial information from components was audited separately, component materiality was set for this purpose at lower levels, varying between 34.67% and 93.75% of group materiality.

The materiality for the Parent Company financial statements was set at £300,000. This was determined with reference to the Parent Company's total assets, but limited to be below group materiality. Total assets are considered the most appropriate measure as the Company's main activity is to hold its investment in its direct subsidiary undertakings. Performance materiality was set at 75% of the Group materiality level for the same reasons as above.

Independent auditor's report to the members of IDE Group Holdings plc (continued)

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of £12,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The Group comprised the Parent Company, three main trading companies; IDE Group Manage Limited, IDE Group Connect Limited and 365 ITMS Limited; and 17 other entities. The Parent Company and the three trading entities are the significant components of the Group. The 17 other entities either contain immaterial balances or are dormant. Each entity is wholly owned by the Group. Each entity's results are included in the consolidated financial statements. Each significant component of the Group is audited by BDO LLP.

Other information

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

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Independent auditor's report to the members of IDE Group Holdings plc (continued)

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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



Simon Brooker (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Reading
United Kingdom

8 May 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Income Statement
for the year ended 31 December 2017

	<i>Note</i>	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Continuing operations			
Revenue		64,951	43,422
Cost of sales	3	(40,993)	(25,580)
Gross profit		23,958	17,842
Administrative expenses excluding impairment	3	(27,119)	(21,638)
Impairment charge on goodwill	13	(9,339)	-
Total administrative expenses		(36,458)	(21,638)
Adjusted EBITDA*		5,393	4,902
Exceptional items	5	(1,567)	(2,950)
Depreciation	12	(3,158)	(2,461)
Amortisation	13	(3,602)	(3,079)
Impairment charge on goodwill	13	(9,339)	-
Loss on disposal of fixed assets		(112)	(117)
Charges for share-based payments	28	(115)	(91)
Operating loss		(12,500)	(3,796)
Finance income	8	-	7
Finance costs	8	(341)	(308)
Loss on ordinary activities before taxation		(12,841)	(4,097)
Income tax	10	1,600	658
Loss for the year attributable to owners of the parent company		(11,241)	(3,439)
Basic loss per share	11	(5.67p)	(1.88p)
Diluted loss per share	11	(5.67p)	(1.88p)

* Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, impairment charge, exceptional items, (loss)/gain on disposal of fixed assets and share-based payments

The Company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the parent Company's Income Statement.

The notes on pages 36 to 71 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2017

	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
Loss for the year attributable to the owners of the parent company	(11,241)	(3,439)
<i>Items that are or may be reclassified subsequently to the income statement</i>		
Foreign exchange translation differences	3	38
Total other comprehensive income	3	38
Total comprehensive loss for the year attributable to the owners of the parent company	(11, 238)	(3,401)

The notes on pages 36 to 71 are an integral part of these financial statements.

Statements of Financial Position

As at 31 December 2017

	Note	Group		Company	
		2017 £000	2016 £000	2017 £000	2016 £000
Non-current assets					
Property, plant and equipment	12	13,044	13,677	-	-
Intangible assets	13	55,350	60,301	-	-
Investments	14	-	-	7,877	7,877
Financial assets	15	89	85	-	-
		68,483	74,063	7,877	7,877
Current assets					
Trade and other receivables	16	15,177	8,918	57,653	53,387
Stock	17	366	-	-	-
Cash and cash equivalents	18	1,106	1,132	378	422
		16,649	10,050	58,031	53,809
Total assets		85,132	84,113	65,908	61,686
Current liabilities					
Trade and other payables	19	15,429	9,036	1,256	1,287
Deferred income	20	6,405	5,663	-	-
Borrowings	23	2,895	764	-	-
Provisions	22	1,157	2,323	252	275
Tax payable	10	-	9	-	-
		25,886	17,795	1,508	1,562
Non-current liabilities					
Deferred income	20	341	-	-	-
Borrowings	23	7,920	5,733	7,402	5,411
Provisions	22	577	666	-	-
Deferred tax liabilities	10	5,115	6,503	-	-
		13,953	12,902	7,402	5,411
Total liabilities		39,839	30,697	8,910	6,973
Net assets		45,293	53,416	56,998	54,713
Equity attributable to equity holders of the parent					
Share capital	27	5,018	4,773	5,018	4,773
Share premium		35,439	32,684	35,439	32,684
Retained earnings		4,963	16,089	16,541	17,256
Foreign currency translation reserve		(127)	(130)	-	-
Total equity		45,293	53,416	56,998	54,713

The notes on pages 36 to 71 are an integral part of these financial statements. The Company made a loss of £830k in the year ended 31 December 2017 (2016: £1,119k). These financial statements were approved by the Board of Directors on 8 May 2018 and were signed on its behalf by:



Julian Phipps

Director

Company registered number: SC368538

Statements of Changes in Equity
for the year ended 31 December 2017

Group	Share Capital	Share premium	Retained earnings	Foreign currency Translation reserve	Total equity
	£000	£000	£000	£000	£000
Balance at 1 January 2016	1,780	-	19,437	(168)	21,049
<i>Total comprehensive loss for the year</i>					
Loss for the financial year	-	-	(3,439)	-	(3,439)
Movement in foreign currency translation	-	-	-	38	38
<i>Transactions with owners recorded directly in equity</i>					
Share issues	2,993	32,684	-	-	35,677
Share based payments	-	-	91	-	91
Balance at 31 December 2016	4,773	32,684	16,089	(130)	53,416
<i>Total comprehensive loss for the year</i>					
Loss for the financial year	-	-	(11,241)	-	(11,241)
Movement in foreign currency translation	-	-	-	3	3
<i>Transactions with owners recorded directly in equity</i>					
Share issues	245	2,755	-	-	3,000
Share based payments	-	-	115	-	115
Balance at 31 December 2017	5,018	35,439	4,963	(127)	45,293

Statements of Changes in Equity (continued)
for the year ended 31 December 2017 (continued)

Company	Share capital	Share Premium	Retained earnings	Total equity
	£000	£000	£000	£000
Balance at 1 January 2016	1,780	-	18,284	20,064
<i>Total comprehensive loss for the year</i>				
Loss for the year	-	-	(1,119)	(1,119)
<i>Transactions with owners recorded directly in equity</i>				
Share issues	2,993	32,684	-	35,677
Share based payments	-	-	91	91
Balance at 31 December 2016	4,773	32,684	17,256	54,713
<i>Total comprehensive loss for the year</i>				
Loss for the year	-	-	(830)	(830)
<i>Transactions with owners recorded directly in equity</i>				
Share issues	245	2,755	-	3,000
Share based payments	-	-	115	115
Balance at 31 December 2017	5,018	35,439	16,541	56,998

Statements of Cash Flows
for the year ended 31 December 2017

Group	Note	2017 £000	2016 £000
Cash flows from operating activities			
Loss for the year		(11,241)	(3,439)
<i>Adjustments for:</i>			
Depreciation	12	3,158	2,461
Amortisation	13	3,602	3,079
Impairment charge	13	9,339	-
Net financial expenses	8	341	301
Taxation	10	(1,600)	(658)
Share based payments	28	115	91
Loss on disposal of fixed assets		112	117
Other		13	38
		<u>3,839</u>	<u>1,990</u>
Increase) in trade and other receivables		(1,936)	(3,559)
Increase in trade and other payables		496	787
Decrease in provisions		(1,185)	(1,496)
		<u>1,214</u>	<u>(2,278)</u>
Tax paid		-	(151)
		<u>1,214</u>	<u>(2,429)</u>
Net cash from operating activities		<u>1,214</u>	<u>(2,429)</u>
Cash flows from investing activities			
Acquisition of Selection, net of cash acquired	6	-	(34,233)
Acquisition of C4L, net of cash acquired	6	-	(14,291)
Acquisition of 365 ITMS, net of cash acquired	6	(597)	-
Acquisition of property, plant and equipment	12	(2,396)	(2,601)
Acquisition of other intangible assets	13	(754)	(5)
Acquisition of financial assets		(4)	(12)
Proceeds from sale of fixed assets		4	-
		<u>(3,747)</u>	<u>(51,142)</u>
Net cash used in investing activities		<u>(3,747)</u>	<u>(51,142)</u>
Cash flows from financing activities			
Interest received		-	7
Interest paid		(322)	(297)
Share issue, net of expenses		-	29,308
New loans and borrowings, net of expenses		1,300	5,392
Repayment of loans and borrowings		(800)	(1,494)
New finance leases		488	300
Repayment of finance leases		(763)	(1,282)
		<u>(97)</u>	<u>31,934</u>
Net cash (used in) /generated from financing activities		<u>(97)</u>	<u>31,934</u>
Net decrease in cash and cash equivalents		<u>(2,630)</u>	<u>(21,637)</u>
Equivalents		<u>1,132</u>	<u>22,769</u>
Cash and cash equivalents at 1 January		<u>1,132</u>	<u>22,769</u>
Cash and cash equivalents at 31 December		<u>(1,498)</u>	<u>1,132</u>
Cash and cash equivalents comprise			
Cash at bank	18	1,106	7
Overdrafts	23	(2,604)	(297)
		<u>(1,498)</u>	<u>1,132</u>

Statements of Cash Flows *(continued)*
for the year ended 31 December 2017 (continued)

Company	Note	2017 £000	2016 £000
Cash flows from operating activities			
Loss for the year		(830)	(1,119)
Adjustments for:			
Net financial expenses		152	128
Taxation		-	(59)
Share based payments		115	91
		<u>(563)</u>	<u>(959)</u>
(Increase) / Decrease in trade and other receivables		(1,139)	11
Decrease in trade and other payables		(158)	(969)
Decrease in provisions	21	(23)	(45)
		<u>(1,883)</u>	<u>(1,962)</u>
Tax paid		-	(215)
Net cash from operating activities		<u>(1,883)</u>	<u>(2,177)</u>
Cash flows from investing activities			
Acquisition of Selection		-	(7,471)
Loan advances to subsidiary undertakings		-	(47,254)
Net cash (used in)/generated from investing activities		<u>-</u>	<u>(54,725)</u>
Cash flows from financing activities			
Interest received		-	7
Interest paid		(152)	(124)
Share issue, net of expenses	6	-	29,308
New loans and borrowings, net of expenses		1,991	5,392
Net cash generated from financing activities		<u>1,839</u>	<u>34,583</u>
Net decrease in cash and cash equivalents		(44)	(22,319)
Cash and cash equivalents at 1 January		422	22,741
Cash and cash equivalents at 31 December	17	<u>378</u>	<u>422</u>

Notes to the Consolidated Financial Statements

1 Accounting policies

IDE Group Holdings plc ("IDE Group") is a company incorporated in Scotland, domiciled in the United Kingdom and limited by shares which are publicly traded on AIM, the market of that name operated by the London Stock Exchange. The registered office is 24 Dublin Street, Edinburgh EH1 3PP and the principal place of business is in the United Kingdom.

The principal activity of the Group is the provision of network, cloud, collaboration, security and IT managed services.

On 30 November 2017, the Company changed its name from CORETX Holdings plc to IDE Group Holdings plc.

The principal accounting policies, which have been applied consistently in the preparation of these consolidated financial statements throughout the year and all by subsidiary companies are set out below:

1.1 Basis of preparation

The consolidated financial statements of IDE Group have been prepared on the going concern basis and in accordance with EU adopted International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRS IC) and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 1.30 in the accounting policies.

The financial statements have been prepared on a going concern basis. The Directors have prepared cash flow forecasts for the Group which show that the Group expects to meet its liabilities from cash resources as they fall due for a period in excess of 12 months from date of approval of these financial statements.

The Group have consolidated the banking arrangements of 365 ITMS Limited into the Group's bank facilities with The Royal Bank of Scotland plc. The Group facilities comprise a five year £7.5 million Revolving Credit Facility available to the Group until 22 January 2021 and a £3.5 million overdraft facility, renewable annually. In addition, the Revolving Credit Facility also contains an accordion feature that allows the total facility to be increased by up to a further £10.0 million to support organic and growth initiatives.

Based on the above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

1.2 Basis of Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the total of the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets are acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with policies adopted by the Group.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.3 Intangible assets

Goodwill

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of any non-controlling interest over the fair value of the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement as a bargain purchase.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to a cash generating unit, or an operation within it.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Other intangible assets arising from business combinations

Intangible assets that meet the criteria to be separately recognised as part of a business combination are carried at cost (which is equal to their fair value at the date of acquisition) less accumulated amortisation and impairment losses. An intangible asset acquired as part of a business combination is recognised outside of goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Intangible assets acquired in this manner includes networks and customer contracts. They are amortised over their estimated useful lives on a straight-line basis as follows:

- | | |
|--|--------------|
| • Customer contracts and related relationships | 5 – 13 years |
| • Trademarks | 5 years |

Impairment and amortisation charges are included within the administrative expenses line in the income statement.

Technology development

Expenditure on internally developed technology is capitalised if it can be demonstrated that:

- it is technically feasible to develop the technology for it to be used or sold
- adequate resources are available to complete the development
- there is an intention to complete and for the Group to use or sell the technology
- use or sale of the asset will generate future economic benefits, and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from using or selling the assets developed. The amortisation expense is included within the administrative expenses line in the income statement. Development expenditure not satisfying the above criteria and expenditure on the research phase of internal project are recognised in the income statement as incurred.

1.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost includes the original price of the asset and the cost attributable to bringing the asset to its current working condition for its intended use.

Computer software includes software purchased from third party vendors used in conjunction with related hardware, rather than a stand-alone basis, and is therefore treated as tangible.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

Property, plant and equipment *(continued)*

Depreciation, down to residual value, is calculated on a straight-line basis over the estimated useful life of the asset which is reviewed on an annual basis, as follows:

• Leasehold property	Over remaining lease term
• Computer software	5 years
• Network infrastructure	10 years
• Equipment, fixtures and fittings	3 – 5 years

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is de-recognised.

1.5 Impairment of Assets

Goodwill is not subject to amortisation and is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the carrying value may be impaired. As at the acquisition date, any goodwill acquired is allocated to each of the cash generating units expected to benefit from the business combination's synergies. Impairment is determined by assessing the recoverable amount of each of the cash generating unit to which the goodwill relates. When the recoverable amount of the cash generating unit is less than the carrying amount, including goodwill, an impairment loss is recognised.

Other intangible assets and property, plant and equipment are subject to amortisation and depreciation and are reviewed for impairment whenever events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

The recoverable amount of intangible assets and property, plant and equipment is the greater of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined by the cash generating unit to which the asset belongs. Fair value less costs to sell is, where known, based on actual sales price net of costs incurred in completing the disposal.

Non-financial assets, excluding goodwill, that were impaired in previous periods are reviewed annually to assess whether the impairment is still relevant.

1.6 Stock

Stock is valued at the lower of cost, using the first in first out method, and net realisable value. Net realisable value is based upon estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete and slow-moving items.

1.7 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds.

1.8 Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.8 Leases *(continued)*

Where the Group has substantially all the risks and rewards of ownership of a leased asset, the asset is capitalised as property, plant and equipment and depreciated over the shorter of its useful economic life and the lease term. The resulting lease obligations are included in borrowings, net of finance charges. Interest costs on finance leases are charged to the income statement to produce a constant periodic rate of change on the remaining balance of the liability for each period.

1.9 Current and deferred income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided for on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination that at the time of the transaction neither affects accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profits will be available against which deductible temporary differences carried forward tax credits or tax losses can be utilised.

1.10 Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original value and recoverable amounts. Provision is made where there is evidence that the balances will not be recovered in full. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows.

The Group's trade and other receivables are non-interest bearing.

1.11 Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1.12 Foreign currencies

The presentational and functional currency of the Group is Pound Sterling (£) and the Group conducts the majority of its business in Sterling. Transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Foreign exchange translation differences arising from the translation of entities reporting in foreign currencies are classified as other comprehensive income.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.13 Trade payables

Trade payables are stated at their nominal value, recognised initially at fair value and subsequently valued at amortised cost.

1.14 Accruals and deferred income

The liability for costs which have been incurred in an accounting period but for which no invoice has been received are recognised in the period the costs relate to. Income which has been invoiced in advance of its recognition criteria being met is recognised on the balance sheet as deferred income until the recognition criteria are met.

1.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Short term provisions are those obligations expected to be realised and the provision utilised within the next twelve months.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a risk-free rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1.16 Pensions

The Group operates a defined contribution scheme. Pension costs are charged directly to the income statement in the period to which they relate on an accruals basis. The Group has no further payment obligations once contributions have been made.

1.17 Share-based payment transactions

The cost of equity-settled transactions with employees is measured by reference to fair value of the award at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date at which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using an appropriate pricing model for which the assumptions are approved by the Directors. In valuing equity-settled transactions, only vesting conditions linked to the market price of the shares of the Company are considered.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the marketing condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting described above. The movement in the cumulative expense since the previous balance sheet date is recognised in the income statement with a corresponding entry in equity.

1.18 Accrual for employee benefits, including holiday pay

Provision is made for employee benefits, including holiday pay, to the extent of the liability as if all employees of the Group had left the business at its reporting date.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.19 Financial assets

The Group classifies its financial assets as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'cash and cash equivalents' and other receivables which are expected to be settled in cash.

1.20 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the dates a derivative contract is entered into and are subsequently re-measured at their fair value. Any gains or losses arising from changes in the fair value of derivatives are taken to the income statement through finance costs.

1.21 Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised in the finance cost line in the income statement.

1.22 Finance costs

Loans are carried at fair value on initial recognition, net of unamortised issue costs of debt. These costs are amortised over the loan term.

All other borrowing costs are recognised in the income statement on an accruals basis, using the effective rate method.

1.23 Revenue

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of Value Added Tax, returns, rebates and discounts and after the elimination sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

Recurring revenue

The largest portion of the Group's revenues relates to a number of network, cloud and IT managed services, which the Group offers to its customers. All of the revenue in this category is contracted and includes a full range of support, maintenance, subscription and service agreements. Revenue for these types of services is recognised as the services are provided. The costs incurred for these revenue streams typically match the revenue pattern. Deferred income is recognised when billing occurs ahead of revenue recognition. Accrued revenue is recognised when the revenue recognition criteria were met but in accordance with the underlying contract, the sales invoice has not been issued yet.

Project revenue

These project services include mainly installation and consultancy services. Revenue from these services are recognised in accordance with the underlying contracts. Customer acceptance of milestones is often required for the recognition of installation and consultancy services revenue. The costs incurred for this revenue stream generally match the revenue pattern, however a significant portion of consultancy costs relate to staff costs, which are recognised as incurred. Installations are typically completed in a very short period of time and the revenue is recognised on completion and/or customer acceptance. Consultancy services are generally provided on a time and material basis.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.24 Finance income

Finance income is recognised on an accruals basis, using the effective interest method.

1.25 Exceptional items

Items which are material either because of their size or nature are highlighted separately on the face of the income statement. The Company believes that the separate reporting of exceptional items helps provide a better picture of the Group's underlying performance.

1.26 Operating profit or loss

The operating profit or loss is identified in the income statement and represents the profit or loss on continuing activities before finance income, finance costs and taxation.

1.27 Segmental reporting

The Chief Operating Decision Maker has been identified as the Chief Executive Officer and the Chief Financial Officer. The Chief Operating Decision Maker reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments, based on adjusted EBITDA.

The Board assess the performance of the operating segments based on adjusted EBITDA. Information provided to the Executive Board is measured in a manner consistent with that in the Financial Statements.

1.28 Discontinued operations

Cash flows and operations that relate to a major component of the business that has been disposed of, or is classified as held for sale or distribution are shown separately from continuing operations.

1.29 Application of new IFRSs and interpretations

International Financial Reporting Standard (IFRS) 15 "Revenue from contracts with customers"

This accounting standard is effective for all periods commencing on or after 1 January 2018 and applies to all contracts with customers except those in the scope of other standards.

It provides a single principals-based five step model framework for revenue recognition that is based on the concept that revenue is recognised for obligations when the control and benefits of a service or asset are passed to a customer.

The Group has completed a review of its revenue recognition taking into account the different revenue streams across the business. Particular focus has been placed on large contracts with the potential for multiple performance obligations. After careful consideration, the directors have concluded that the adoption of IFRS 15 will not have a material effect to the manner in which the group's performance obligations are identified and satisfied, or the profile of the recognition of revenue.

The Group has applied this standard with effect from 1 January 2018.

The Company has limited or no revenue.

International Financial Reporting Standard (IFRS) 16 "Leases"

This accounting standard is effective for all periods commencing on or after 1 January 2019 replacing IAS 17.

The main principal of this standard is that it removes the differentiation between operating and finance leases for the lessee, requiring that assets and liabilities are recognised for all leases unless the lease term is 12 months or less, or if the asset is of low value.

Adoption of the standard will require the group to capitalise the lease element of certain contracts which under existing accounting standards are not treated in this way.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.29 Application of new IFRSs and interpretations *(continued)*

International Financial Reporting Standard (IFRS) 16 "Leases" (continued)

Further work will be undertaken during 2018 to determine the precise impact of IFRS 16. However initial review has suggested that the main impact will be around the way property leases are treated as these are currently charged through the Comprehensive Income Statement as a rental charge. Under the provisions of IFRS 16, the present value of the future payments in respect of the property leases will be capitalised, a lease liability will be established and the lease asset will be depreciated on a straight-line basis over the term of the lease. Similar analysis and review will be undertaken on all other operating leases in the Group, primarily relating to leases of computer equipment, to determine the present value of future lease payments. The present value will be capitalised and depreciated over the term of the lease.

The Company has no operating leases.

International Financial Reporting Standard (IFRS) 9 "Financial Instruments"

This accounting standard is effective for all periods commencing on or after 1 January 2018 and replaces IAS 39 "Financial Instruments: Recognition and Measurement".

The standard requires entities to use an expected credit loss model for impairment of financial assets instead of an incurred credit loss model. This is unlikely to materially affect the way the Group provides for bad and doubtful receivables so the impact of the introduction of the new standard is not considered to be material.

The Company will consider any impairments on intercompany balances, however does not consider this will be material.

1.30 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes judgements, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related results. The Group carries out sensitivity analysis in all areas involving judgement, estimates and assumptions. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Revenue recognition

The Group recognises revenue for virtually all its services on the basis of the time-defined periods during which the services are provided. Judgement is exercised on large managed service project implementations, where each separately identifiable phase of a project needs to be assessed in terms of percentage of completion of that phase in assessing the amount of revenue recognisable on the project as a whole. Such judgement is exercised on a handful of projects in any particular accounting period.

Estimated initial recognition of intangible assets on acquisition

On the acquisition of a new business, the Group undertakes an assessment of the fair values attributable to the assets acquired, including an assessment of any intangible assets acquired. The valuation of intangibles on acquisition requires management to make estimates in relation to the valuation of separately identifiable assets which include but are not limited to estimates of the length of the contractual relationships of customers in connection with the valuation of customer contracts and relationships, which are subject to amortisation over the length of the contractual relationship. The resultant assets are included as part of the fair value balance sheet of the acquired company and are tested for impairment as part of the overall CGU testing as per below.

Estimated impairment of goodwill

The Group tests annually whether goodwill and any non-amortised intangible assets have suffered any impairment, in accordance with the accounting policy stated in 1.5 above. The value-in-use calculations contain a number of significant estimates and assumptions including future sales, margins and appropriate discount rates. See note 13 in the financial statements for an analysis of goodwill and CGUs.

Notes to the Consolidated Financial Statements (continued)

1 Accounting policies (continued)

1.30 Critical accounting estimates and assumptions (continued)

Classification of exceptional costs

The Directors have exercised judgement when classifying certain costs arising during integration and strategic reorganisation projects. The Directors believe that these costs are all related to the types of costs described in 1.25 above and are appropriately clarified.

Estimation of provisions

As with any listed group, a number of provisions exist at the year end. By their nature, these provisions are judgmental. The Directors have considered the range of possible outcomes and have made provision on the basis of these outcomes. See note 22 "Provisions" in the financial statements.

2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been identified as the Chief Executive Officer and the Chief Financial Officer. The Chief Executive and the Chief Financial Officer are jointly responsible for resource allocation and assessing the performance of the operating segments. The operating segments are defined by distinctly separate product offerings or markets. The CODM assesses the performance of the operating segments based on a measure of revenue and gross profit.

The following table presents revenue and gross profit in respect of the Group's operating segments for the year ended 31 December 2017. Administrative expenses are not allocated against operating segments in the Group's internal reporting. Revenue included within the control segment represents rental income.

Continuing operations year ended 31 December 2017	Managed Services £000	Cloud Hosting £000	Networks £000	Projects £000	Security £000	Central £000	Total £000
Revenue	22,959	10,732	13,120	17,185	839	116	64,951
Cost of Sales	(15,160)	(6,485)	(7,562)	(11,158)	(628)	-	(40,993)
Gross profit/(loss)	7,799	4,247	5,558	6,027	211	116	23,958
Administrative expenses	-	-	-	-	-	(27,119)	(27,119)
Impairment charge	-	-	-	-	-	(9,339)	(9,339)
Operating profit/(loss)	7,799	4,247	5,558	6,027	211	(36,342)	(12,500)
<i>Analysed as:</i>							
Adjusted EBITDA	7,799	4,247	5,558	6,027	211	(18,449)	5,393
Exceptional costs	-	-	-	-	-	(1,567)	(1,567)
Depreciation	-	-	-	-	-	(3,158)	(3,158)
Amortisation of intangible assets	-	-	-	-	-	(3,602)	(3,602)
Loss on disposal of fixed assets	-	-	-	-	-	(112)	(112)
Share based payments	-	-	-	-	-	(115)	(115)
Net financial costs	-	-	-	-	-	(341)	(341)
Profit/(loss) before taxation	7,799	4,247	5,558	6,027	211	(36,683)	(12,841)
Tax on profit/(loss) on ordinary activities	-	-	-	-	-	1,600	1,600
Profit/(loss) for the year after taxation	7,799	4,247	5,674	6,027	211	(35,083)	(11,241)

Notes to the Consolidated Financial Statements (continued)

2 Segment reporting (continued)

Continuing operations year ended 31 December 2016	Managed Services £000	Cloud Hosting £000	Networks £000	Projects £000	Central £000	Total £000
Revenue	14,816	11,158	9,282	8,166	-	43,422
Cost of Sales	(8,435)	(5,496)	(6,541)	(5,108)	-	(25,580)
Gross profit/(loss)	6,381	5,662	2,741	3,058	-	17,842
Administrative expenses	-	-	-	-	(21,638)	(21,638)
Operating profit/(loss)	6,381	5,662	2,741	3,058	(21,638)	(3,796)
<i>Analysed as:</i>						
Adjusted EBITDA	6,381	5,662	2,741	3,058	(12,940)	4,902
Exceptional costs	-	-	-	-	(2,950)	(2,950)
Depreciation	-	-	-	-	(2,461)	(2,461)
Amortisation of intangible assets	-	-	-	-	(3,079)	(3,079)
Loss on disposal of fixed assets	-	-	-	-	(117)	(117)
Share based payments	-	-	-	-	(91)	(91)
Net financial costs	-	-	-	-	(301)	(301)
Profit/(loss) before taxation	6,381	5,662	2,741	3,058	(21,939)	(4,097)
Tax on profit/(loss) on ordinary activities	-	-	-	-	658	658
Profit/(loss) for the year after taxation	6,381	5,662	2,741	3,058	(21,281)	(3,439)

The Statement of Financial Position is not allocated between Managed Services, Cloud Hosting, Networks, Projects and Central in the Group's internal reporting.

The Group had one customer who accounted for 30.6 percent of the Group's revenue during the year (2016: one). This customer purchased Managed Services and Projects from the Group.

In respect of turnover by geographical location for the year ended 31 December 2017, turnover of £62.8 million (2016: £41.5 million) was generated in the United Kingdom, £1.0 million (2016: £1.7 million) was generated in Europe and £1.2 million (2016: £0.2 million) was generated outside of Europe.

3 Expenses by nature

	2017 £000	2016 £000
<i>Continuing operations</i>		
Direct staff costs	14,298	6,622
Other cost of sales	26,695	18,958
Employee costs within administrative expenses	10,011	9,430
Amortisation of intangible assets	3,602	3,079
Depreciation	3,158	2,461
Impairment charge	9,339	-
Loss on disposal of fixed assets	112	117
Share-based payments	115	91
Exceptional costs	1,567	2,950
Amounts payable under operating leases	1,586	761
Other administrative costs	6,968	2,739
Total cost of sales and administrative expenses	77,451	47,208

Notes to the Consolidated Financial Statements *(continued)*

4 Auditors' remuneration

	2017 £000	2016 £000
Audit of these financial statements	20	48
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the Company	69	92
Tax compliance services	-	23
Other tax advisory services	-	5
Other advisory services	-	53
Total	<u>89</u>	<u>221</u>

During the year, BDO LLP were appointed as auditors to the Group, following the resignation of the previous auditors, PricewaterhouseCoopers LLP, after the AGM in June 2017.

5 Exceptional costs

In accordance with the Group's policy in respect of exceptional costs, the following charges were incurred for the year:

	2017 £000	2016 £000
Restructuring and reorganisation costs	1,034	2,056
Acquisition costs	533	894
	<u>1,567</u>	<u>2,950</u>

Restructuring and reorganisation costs on continuing operations relate to costs incurred on the integration of the businesses acquired during the year and the previous year. These costs include employment related costs of staff made redundant as a consequence of integration, rebranding costs, other non-recurring costs associated with the integration during the year and costs following the disposal of the Group's legacy business.

Acquisition costs relate to costs incurred on the acquisition of 365 ITMS during the year and include legal, financial due diligence and corporate advisory fees.

6 Business combinations

Business combinations in the year ended 31 December 2017

365 ITMS Limited

On 5 April 2017, the Company acquired the entire issued share capital of 365 ITMS Limited and its subsidiary entities, a United Kingdom based provider of a range of managed IT solutions to mid-market companies. The purpose of the acquisition was to further strengthen existing offerings and to enhance the Group's collaboration capabilities. The consideration for 365 ITMS was £4.6 million, paid as £1.6 million in cash and £3 million satisfied by the issue of 9,826,400 new ordinary shares. In addition, the company assumed debt of £1.5 million and inherited cash of £1.0 million.

From the date of acquisition to the 31 December 2017, 365 ITMS recorded revenue of £10.4 million and a profit before tax of £0.2 million. Assuming the combination had taken place at the beginning of the year, the reported revenue from 365 ITMS would have been £14.3 million and the profit before tax would have been £0.2 million.

Acquisition costs for 365 ITMS of £0.5 million were incurred in the year.

Notes to the Consolidated Financial Statements (continued)

6 Business combinations (continued)

Business combinations in the year ended 31 December 2017 (continued)

365 ITMS Limited (continued)

	Book Value £000	Fair value Adjustments £000	Fair Value £000
Fair value of purchase consideration			4,600
<i>Less fair value of assets acquired:</i>			
Property plant and equipment	(321)	70	(251)
Trade receivables	(3,109)	30	(3,079)
Other debtors	(1,892)	208	(1,684)
Cash	1,003		(1,003)
Trade payables	1,505		1,505
Other short term liabilities	4,684	689	5,373
Other long term liabilities	1,564		1,564
Goodwill and intangibles			7,025

The consideration was satisfied as follows:

	Total £000
Cash on completion	1,600
Equity	3,000
Gross consideration	4,600
Less cash inherited on acquisition	(1,003)
Less non cash consideration	(3,000)
Net cash consideration on acquisition	597

On acquisition of 365 ITMS Limited, the Directors assessed the business to identify any intangible assets. Customer contracts and relationships met the criteria for recognition as intangible assets as they are separable from each other and have a measurable fair value, being the amount for which an asset would be exchanged between knowledgeable and willing parties in an arm's length transaction.

Customer contracts were assessed in two ways; customers where the relationship is direct, and those where the relationship is indirect, via a channel partner. For direct customer contracts, the fair value of intangible assets was calculated by using the discounted cash flows arising from the existing direct customer contracts base. Customer retention was assumed to be 75% based on past experience. For channel customer contracts, the fair value of intangible assets was calculated by using the discounted cash flows arising from the existing channel customer contracts base. Customer retention was assumed to be 75% based on past experience.

Long term growth rates were applied with a post-tax discount rate of 13%. The reasonable economic life of customer relationships and trademarks was assumed to be as follows:

- Direct customer contracts and relationships 6 years
- Channel customer contracts and relationships 8 years

Both of the above identified intangible assets have been classified within "customer contracts and related relationships" in the intangible assets note at note 13.

Notes to the Consolidated Financial Statements *(continued)*

6 Business combinations *(continued)*

Business combinations in the year ended 31 December 2017 *(continued)*

365 ITMS Limited *(continued)*

The identifiable intangible assets and related deferred tax liability are as follows:

	Total £000
Intangible asset – Direct customer contracts and relationships	801
Intangible asset – Channel customer contracts and relationships	310
Separately identifiable intangible assets	1,111
Deferred tax liability thereon	(211)
Goodwill	6,125
	7,025

The goodwill arising from acquisitions is attributable to synergies and cross selling opportunities from continuing operations and the knowledge and the ability of the workforce.

Business combinations in the year ended 31 December 2016

Selection

On 21 January 2016, the Company acquired the entire issued share capital of Selection Services Investments Limited and its subsidiary entities ("Selection"), a United Kingdom focused provider of IT solutions and Cloud Services with over 500 active customers. The enterprise value of Selection was £34.8 million, paid as £34.4 million in cash with the balance satisfied by the issue of 1,353,810 new ordinary shares.

From the date of acquisition to 31 December 2016, Selection recorded revenue of £32.0 million and a profit before tax of £0.3 million. Assuming the combination had taken place at the beginning of that year, the reported revenue from Selection would have been £33.4 million and the loss before taxation would have been £0.4 million.

Acquisition costs for Selection were £0.9 million, £0.8 million of which had been accrued at 31 December 2015.

C4L

On 16 February 2016, the Group acquired the entire issued share capital of C4L Group Holdings Limited and its subsidiary entities ("C4L"), a successful and growing network services and data centre hosting business with over 550 active customers, for a total consideration of £20.2 million, paid as £14.2 million in cash with the balance satisfied by the issue of 18,346,918 new ordinary shares. C4L brings a high quality core network infrastructure with substantial capacity for growth and a broad data centre infrastructure.

From the date of acquisition to 31 December 2016, C4L recorded revenue of £11.3 million and a loss before tax of £0.4 million. Assuming the combination had taken place at the beginning of that year, the reported revenue from C4L would have been £13.1 million and the loss before taxation would have been £0.6 million.

Acquisition costs for C4L were £0.8 million.

Notes to the Consolidated Financial Statements *(continued)*

6 Business combinations (continued)

The total goodwill and intangible assets arising from the acquisitions is the difference between the fair value of the consideration less the provisional value of the assets acquired.

	Selection £000	C4L £000	Total £000
Fair value of purchase consideration	34,771	20,211	54,982
<i>Less fair value of assets acquired:</i>			
Property plant and equipment	(1,544)	(12,110)	(13,654)
Intangible assets	-	(336)	(336)
Other non-current assets	(632)	-	(632)
Trade receivables	(2,271)	(1,077)	(3,348)
Other debtors	(709)	(913)	(1,622)
Cash	(132)	43	(89)
Trade payables	3,052	1,878	4,930
Other liabilities	5,375	7,604	12,979
Provisions	900	3,080	3,980
Goodwill and intangibles	38,810	18,380	57,190

The consideration was satisfied as follows:

	Selection £000	C4L £000	Total £000
Cash on completion	34,365	14,248	48,613
Equity	406	5,963	6,369
	34,771	20,211	54,982

On acquisition of each business, the Directors assessed the business acquired to identify any intangible assets. Customer contracts and relationships and trademarks met the criteria for recognition as intangible assets as they are separable from each other and have a measurable fair value, being the amount for which an asset would be exchanged between knowledgeable and willing parties in an arm's length transaction.

For customer contracts, the fair value of intangible assets was calculated by using the discounted cash flows arising from the existing customer contracts base for both businesses. Customer retention was assumed to be 75% for Selection and 27% for C4L, based on past experience. For trademarks, the fair value of intangible assets was calculated by using the discounted cash flow arising from revenues that would be generated if the trademarks were to be licensed to a third party, which was assumed to be 1% of total revenue.

Long term growth rates were applied with a post-tax discount rate of 10.0%. The reasonable economic life of customer relationships and trademarks was assumed to be as follows:

- Customer relationships 5 to 13 years
- Trademarks 5 years

Customer relationships are assumed on average to last from 5 years to 9 years in duration, except for our largest customer, where it has been assumed a longer relationship period will exist.

Notes to the Consolidated Financial Statements (continued)

6 Business combinations (continued)

The identifiable intangible assets and related deferred tax liability are as follows:

	Selection £000	C4L £000	Total £000
Intangible asset - customer contracts and relationships	27,347	1,729	29,076
Intangible asset - trademarks	-	1,707	1,707
Separately identifiable intangible assets	27,347	3,436	30,783
Deferred tax liability thereon	(5,195)	(654)	(5,849)
Goodwill	16,658	15,598	32,256
	38,810	18,380	57,190

The goodwill arising from acquisitions is attributable to synergies and cross selling opportunities from continuing operations and the knowledge and the ability of the workforce.

Impairment reviews were carried out at 31 December 2017 and the goodwill arising on the Selection acquisition was impaired by £7,199k and the goodwill arising on the C4L acquisition was impaired by £2,140k.

7 Discontinued operations

There were no discontinued operations during 2017.

On 8 September 2016, the Group agreed to sell its subsidiary undertaking, CORETX Media Limited ("CML") to Mathew Hawkins, Chief Technology Officer, who resigned with immediate effect as a Director of the Company, in order to focus full time on building a business within CML.

CML was acquired by the Group for no additional consideration as part of its acquisition of C4L Group Holdings Limited ("C4L") in February 2016 and was established by Mathew Hawkins to deliver network and other related services to media businesses. In the light of the nature of CML's business operations and commercial activity to date, which was considered not to be core to the Group's operations, its disposal was effected for £1, in conjunction with which, the Group will provide CML with fibre, network connectivity and other related services.

The results of CORETX Media Limited are not material to the Group and have not been disclosed under discontinued operations during the prior year.

8 Finance income and costs

<i>Finance income</i>	2017 £000	2016 £000
Other finance income	-	7
<i>Finance costs</i>	2017 £000	2016 £000
Interest payable on bank loans and overdrafts	254	176
Interest expense on finance lease obligations	64	113
Amortisation of loan arrangement fees	23	19
	341	308

Notes to the Consolidated Financial Statements (continued)

9 Employee benefits expense

Staff costs for the year, including Directors, amounted to:

	2017 £000	2016 £000
Wages and salaries	21,190	14,900
Social security costs	2,265	1,604
Other pension costs	739	508
Share-based payments	115	91
	<u>24,309</u>	<u>17,103</u>

At 31 December 2017, the Group employed 525 staff, including Directors (2016: 401).

The average monthly number of persons employed by the Group during the year, including Directors, analysed by category, was as follows:

	Number of employees	
	2017	2016
Operations	369	318
Sales and Marketing	63	42
Administration	82	49
Directors	5	5
	<u>519</u>	<u>414</u>

The Company employed an average of three employees during 2017 (2016: three), the non-Executive Directors as detailed below.

For Directors who held office during the year, emoluments for the year ended 31 December 2017 were as follows:

	Salary/fees £	Redundancy £	Benefits £	Bonus £	Pension £	2017 total £	2016 total £
Executive							
Andy Ross ¹	200,000	-	7,200	50,000	12,432	269,632	193,052
Julian Phipps	140,000	-	7,000	37,500	8,820	193,320	216,695
Mathew Hawkins	-	-	-	-	-	-	79,830
Simon Mewett	-	-	-	-	-	-	153,425
Niall Stirling	-	-	-	-	-	-	136,095
Non-Executive							
Jonathan Watts	50,000	-	2,935	-	-	52,935	48,605
Bill Dobbie	30,000	-	-	-	-	30,000	30,000
Katherine Ward	35,000	-	-	-	-	35,000	33,026
Max Royde	-	-	-	-	-	-	1,731
Total	<u>455,000</u>	<u>-</u>	<u>17,135</u>	<u>87,500</u>	<u>21,252</u>	<u>580,887</u>	<u>892,459</u>

1. Directors emoluments to Andy Ross were paid as follows:

- An annual salary of £180,000 from 1 January – 31 July 2017, increasing to £200,000 from 1 August – 31 December 2017, paid monthly by IDE Group Manage Limited, a Group subsidiary company; and
- A monthly fee of £1,666.67 paid to MXC Advisory Limited, a subsidiary company of MXC Capital Limited, for the period from 1 January – 31 July 2017.

The Executive Directors salaries are paid from subsidiary companies within the Group. The Non-Executive Director fees and the fee to MXC Advisory Limited for Andy Ross' services are paid by the Company.

Notes to the Consolidated Financial Statements *(continued)*

9 Employee benefits expense *(continued)*

Social security costs in respect of Directors' emoluments were £67k (2016: £99k), of which £ nil (2016: £22k) relates to social security costs on the Employee Share Scheme. Pension contributions are made to a defined contribution scheme.

None of the Directors made any gains on the exercise of share options in 2017 or 2016.

On 16 March 2016, options were awarded as follows:

400 A Ordinary Shares of 0.001 pence in IDE Group Limited (formerly CORETX Limited), a subsidiary company, to Andy Ross under an approved Employee Share Scheme; and

200 A Ordinary Shares of 0.001 pence in IDE Group Limited, a subsidiary company, to Julian Phipps under an approved Employee Share Scheme.

The value of the A Ordinary Shares in IDE Group Limited is dependent on the average share price of IDE Group Holdings plc over a five-day consecutive period between 21 January 2016 and 21 January 2019. If the average share price reaches or exceeds 42 pence in a five-day consecutive period between 21 January 2016 and 21 January 2019, the holders of the A Ordinary Shares can sell their shares to IDE Group Holdings plc at any time from 21 January 2019 to 21 January 2023. The holders of the A Ordinary Shares will be entitled to share in a pool of up to 5 percent of the total shareholder value created in the Group from 21 January 2016 to the date of sale, adjusted for any Ordinary Share issued by the Company during that period. If the average share price does not reach 42p in a five-day consecutive period between 21 January 2016 and 21 January 2019, then the period in which the target can be met is extended until the earlier of the target being met and 21 January 2021. The awards are exercisable at nil cost. Andy Ross was entitled to 2% of the total shareholder value created, however his options lapsed on 22 March 2018 when he resigned. Julian Phipps is entitled to 1% of the total shareholder value created.

On 4 May 2016, options were awarded as follows:

100 B Ordinary Shares of 0.001 pence in IDE Group Limited, a subsidiary company, to Jonathan Watts under Hurdle Shares. The 100 B Ordinary Shares granted rights over 666,666 options of 2.5 pence Ordinary Shares in the Company to Jonathan Watts. The options lapsed on 9 January 2018 when Jonathan Watts resigned.

Equity share based payments in respect of Directors amounted to £72k in the year to 31 December 2017 (2016: £57k), with equity share based payments in respect of other employees amounting to £43k in the year to 31 December 2017 (2016: £34k).

10 Taxation

(a) Tax on loss/(profit) on ordinary activities

	2017 £000	2016 £000
Current tax credit		
Current year	-	-
Adjustments for prior years	(1)	(59)
Current tax credit	<u>(1)</u>	<u>(59)</u>
Deferred tax credit	<u>(1,599)</u>	<u>(599)</u>
Total tax credit	<u><u>(1,600)</u></u>	<u><u>(658)</u></u>

Notes to the Consolidated Financial Statements *(continued)*

10 Taxation *(continued)*

Legislation was introduced in the Finance (No. 2) Act 2015 to reduce the UK main corporation tax rate to 19% from 1 April 2017. The Finance Act 2016 reduced the UK main corporation tax rate to 17% from 1 April 2020. This will reduce the Group's future current tax charge accordingly. Deferred tax has been re-measured on the basis of these new rates and reflected in the financial statements.

Reconciliation of the total income tax credit	2017 £000	2016 £000
Loss for the year	(11,241)	(3,439)
Total tax credit	(1,600)	(658)
Loss before taxation	(12,841)	(4,097)
Tax using the United Kingdom corporation tax rate of 19.25% (2016: 20%)	(2,472)	(819)
Non-deductible expenses	1,939	170
Depreciation on non qualifying assets	18	-
Adjustments for prior years	(1)	(59)
Utilisation of losses	(452)	-
Tax losses not recognised	38	-
Prior year adjustment deferred tax	(82)	-
Adjustment for rate change	(588)	-
Other items	-	50
Total tax credit	(1,600)	(658)

(b) Deferred tax liability

	2017 £000	2016 £000
At 1 January	6,503	-
Business combinations	211	7,266
Acquired with subsidiaries	-	(164)
Credit to income statement	(1,599)	(599)
At 31 December	5,115	6,503

Deferred tax liabilities arose in respect of the amortisation of intangible assets recognised on acquisitions made and the difference between capital allowances and depreciation, details as follows:

	2017 £000	2016 £000
Depreciation in advance of capital allowances	(140)	1,244
On acquisitions	5,288	5,275
Other temporary differences	(34)	(16)
At 31 December	5,115	6,503

The Group had unrecognised trading losses carried forward at 31 December 2017 of £13,024k (2016: £15,066k)

Notes to the Consolidated Financial Statements *(continued)*

11 Earnings per share

Basic earnings per share has been calculated using the loss after tax for the year of £11,241,000 (2016: £3,439,000) and a weighted average number of ordinary shares of 198,198,486 (2016: 183,108,493). The dilutive effect of share options and warrants at 31 December 2017 increased the weighted average number of ordinary shares to 212,066,860 (2016: 194,909,006).

In addition, the Board uses an adjusted earnings per share figure which has been calculated to reflect the underlying performance of the business. The basis for adjusted earnings per share is a non-statutory measure, which we believe is useful to investors and is commonly used in monitoring similar businesses. The measure is derived as follows:

	2017 £000	2016 £000
Loss from operations for the year	(11,241)	(3,439)
Tax credit	(1,600)	(658)
Amortisation of acquired intangible assets	3,602	3,079
Impairment charge	9,339	-
Share based payments	115	91
Exceptional costs	1,567	2,950
	<hr/>	<hr/>
Adjusted earnings before tax	1,782	2,023
Notional tax charge at standard rate	(338)	(384)
	<hr/>	<hr/>
Adjusted earnings	1,444	1,639
	<hr/> <hr/>	<hr/> <hr/>
	2017 Number	2016 Number
Weighted average number of shares in issue	198,198,486	183,108,493
Weighted diluted effect of options and warrants in issue	13,868,374	11,800,513
	<hr/>	<hr/>
Diluted weighted average number of shares in issue	212,066,860	194,909,006
	<hr/> <hr/>	<hr/> <hr/>
Statutory basic earnings per share (pence)	(5.67)	(1.88)
Statutory diluted earnings per share (pence)	(5.67)	(1.88)
Adjusted basic earnings per share (pence)	0.73	0.90
Adjusted diluted earnings per share (pence)	0.68	0.84

Notes to the Consolidated Financial Statements *(continued)*

12 Property, plant and equipment

Group

	Leasehold property £000	Computer software £000	Network infrastructure £000	Equipment, fixtures and fittings £000	Total £000
Cost					
At 1 January 2016	-	-	-	-	-
Business combinations	33	212	11,894	1,515	13,654
Additions	6	860	537	1,198	2,601
Disposals	-	(39)	(15)	(109)	(163)
At 31 December 2016	39	1,033	12,416	2,604	16,092
Business combinations	4	12	97	138	251
Additions	-	550	927	919	2,396
Disposals	-	-	(171)	(35)	(206)
At 31 December 2017	43	1,595	13,269	3,626	18,533
Accumulated depreciation					
At 1 January 2016	-	-	-	-	-
Charge for the year	8	228	1,255	970	2,461
Disposals	-	(4)	(2)	(40)	(46)
At 31 December 2016	8	224	1,253	930	2,415
Charge for the year	16	449	1,390	1,303	3,158
Disposals	-	-	(59)	(25)	(84)
At 31 December 2017	24	673	2,584	2,208	5,489
Net carrying amount					
31 December 2017	19	922	10,685	1,418	13,044
31 December 2016	31	809	11,163	1,674	13,677

As at 31 December 2017, included within network infrastructure and equipment, fixtures and fittings are assets held under finance leases with a carrying value of £1,693k (2016: £1,675k) and £47k (2016: £512k), respectively. Of the fixed assets acquired in the year, £488k were funded using finance leases (2016: £300k).

The depreciation charge for the year of £3,158k (2016: £2,461k) relates to continuing operations and has been charged to administrative expenses.

Company

The Company has no property, plant and equipment at 31 December 2016 and at 31 December 2017.

Notes to the Consolidated Financial Statements (continued)

13 Intangible assets

Group

	Goodwill £000	Trademarks £000	Customer contracts and related relationships £000	Technology development £000	Total £000
Cost:					
At 1 January 2016	-	-	-	-	-
Business combinations	32,256	1,707	29,076	336	63,375
Additions	-	-	-	5	5
At 31 December 2016	32,256	1,707	29,076	341	63,380
Business combinations	6,125	-	1,111	-	7,236
Additions	-	-	-	754	754
At 31 December 2017	38,381	1,707	30,187	1,095	71,370
Amortisation:					
At 1 January 2016	-	-	-	-	-
Charge for the year	-	299	2,716	64	3,079
At 31 December 2016	-	299	2,716	64	3,079
Charge for the year	-	341	3,125	136	3,602
Impairment charge	9,339	-	-	-	9,339
At 31 December 2017	9,339	640	5,841	200	16,020
Net carrying amount:					
31 December 2017	29,042	1,067	24,346	895	55,350
31 December 2016	32,256	1,408	26,360	277	60,301

The amortisation charge in the year relates to continuing operations and is included in the loss for the year from continued operations in the Income Statement within administrative expenses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is supported by calculating the discounted cash flows arising from the businesses acquired which represent the cash generating unit ("CGU") to which goodwill is allocated.

Other intangible assets are reviewed for impairment indicators in line with the Group's accounting policy.

The recoverable amount of all cash generating units has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by the Board of Directors until 31 December 2018 and extrapolated for a further five years by growth rates applicable to the CGU. A terminal value based on a perpetuity calculation using 2% real growth was then added. Long term growth rates were applied with a post-tax discount rate of 13%. This review has identified that carrying value exceeds recoverable amount in relation to goodwill arising on the acquisition of Selection and C4L.

The Group has conducted a sensitivity analysis on the impairment of each CGUs carrying value. The impairment charge in 2017 includes a £7,199k impairment to the goodwill arising on acquisition of Selection Services and £2,140k impairment to the goodwill arising on the acquisition of C4L. There is a possible chance that changes to key assumptions, including sales growth and margins, could result in a change in impairment, however any expected

Notes to the Consolidated Financial Statements *(continued)*

13 Intangible assets *(continued)*

change would result in operational changes to the business which would mitigate any potential change to the impairment charge.

The remaining unamortised life of the intangible assets at 31 December 2017 is as follows:

- Trademarks – 3 years
- Customer contracts and related relationships – 3 to 11 years
- Technology – 2 years

Company

The Company has no intangible assets at 1 January 2016, 31 December 2016 and at 31 December 2017.

14 Investments

Company

	£000
At 1 January 2016	-
Acquisition of subsidiary undertaking	7,877
	<hr/>
At 31 December 2016	7,877
	<hr/>
At 31 December 2017	7,877
	<hr/> <hr/>

On 21 January 2016, the Company acquired 100% of the issued share capital of IDE Group Limited (formerly CORETX Limited). The Directors annually review the carrying value of the Company's investments for impairment. Following this review, the Directors believe that the carrying value of the investments is supported by their underlying net assets and cash flows.

Notes to the Consolidated Financial Statements (continued)

14 Investments (continued)

The Company has the following investments in subsidiaries:

	Country of Incorporation	Class of shares held	Ownership	
			2017	2016
Held directly by IDE Group Holdings plc				
IDE Group Limited (formerly CORETX Limited)	England ¹	Ordinary	100%	100%
Connexions4London Limited	Scotland ²	Ordinary	100%	100%
Selection Services Investments Limited	Scotland ²	Ordinary	100%	100%
Selection Services Limited	England ³	Ordinary	100%	100%
Castle Digital Services Inc.	USA ⁴	Ordinary	100%	100%
Cupid.com Inc.	USA ⁴	Ordinary	100%	100%
Assistance Genic Logiciel	France ⁵	Ordinary	100%	100%
Held indirectly by IDE Group Holdings plc				
IDE Group Financing Limited (formerly CORETX Financing Limited)	England ¹	Ordinary	100%	100%
IDE Group Manage Limited (formerly CORETX Manage Limited)	England ¹	Ordinary	100%	100%
IDE Group Protect Limited (formerly CORETX Protect Limited)	England ¹	Ordinary	100%	100%
IDE Group Subholdings Limited (formerly CORETX Subholdings Limited)	England ¹	Ordinary	100%	100%
IDE Group Connect Limited (formerly CORETX Connect Limited)	England ¹	Ordinary	100%	100%
IDE Group Voice Limited (formerly CORETX Communications Limited)	England ¹	Ordinary	100%	100%
Selection Services EBT Trustee Limited (dissolved on 27 February 2018)	England ¹	Ordinary	100%	100%
8EL Leasing Limited (dissolved on 27 March 2018)	England ¹	Ordinary	100%	100%
365 ITMS	England ¹	Ordinary	100%	-
Deverill Group Limited	England ¹	Ordinary	100%	-
Deverill Limited	England ¹	Ordinary	100%	-
Aggregated Telecom Limited	England ⁵	Ordinary	100%	100%
Hooya Digital Limited	Cyprus ⁶	Ordinary	100%	100%

1 Registered office is located at Napoleon House, Riseley Business Park, Riseley, Reading RG7 1NW

2 Registered office is located at 24 Dublin Street, Edinburgh EH1 3PP

3 Registered office is located at Interchange Building, Wellesley Road, Croydon CR0 2RD

4 Registered office is located at 2711 Centerville Road, Suite 400, New Castle, Wilmington, Delaware 19808, U.S.A.

5 Registered office is located at 39 Rue Royale, 92201 Saint-Cloud, France

6 Registered office is located at Faneromenis 115, Antouanettas Building, 6031 Lamaca, Cyprus

At 31 December 2017, the trading subsidiaries of the Company were IDE Group Manage Limited (formerly CORETX Manage Limited), IDE Group Connect Limited (formerly CORETX Connect Limited) and 365 ITMS Limited.

At 31 December 2016, the trading subsidiaries of the Company were IDE Group Manage Limited (formerly CORETX Manage), IDE Group Protect Limited (formerly CORETX Protect Limited), IDE Group Connect Limited (formerly CORETX Connect Limited) and IDE Group Voice Limited (formerly CORETX Communications Limited).

All of the remaining subsidiaries are non-trading.

Connexions4London Limited, Selection Services Investments Limited, Aggregated Telecom Limited, Selection Services Limited, Deverill Group Limited and Deverill Limited are exempt from the requirements of the Companies Act relating to the audit of individual accounts by virtue of Section 479A.

The trade and assets of IDE Group Protect Limited and IDE Group Voice Limited were sold to IDE Group Manage Limited on 30 November 2016 and 1 January 2017 respectively.

Notes to the Consolidated Financial Statements (continued)

15 Financial assets

Non current	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Rent deposit	89	85	-	-

Financial assets consist of a rent deposit held in Cyprus.

16 Trade and other receivables

Current	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade receivables	8,955	6,328	-	-
Less provision for impairment of trade receivables	(380)	(415)	-	-
Trade receivables – net	8,575	5,913	-	-
Accrued income	3,030	671	-	-
Amounts due from subsidiary undertakings	-	-	57,461	53,378
Tax and social security	-	-	127	-
Prepayments and other debtors	3,572	1,553	65	9
	15,177	8,918	57,653	53,387

As at 31 December 2017, trade receivables of £0.4 million (2016: £0.4 million) were impaired and fully provided. The Directors monitor the quality of the receivables not impaired and believe them to be recoverable. The non-impaired receivables are fully performing and relate to independent customers with no history of default. The individually impaired receivables relate to receivables over 365 days, customers in financial difficulty, customer acceptance issues and cancelled contracts.

As at 31 December 2017, trade receivables of £0.9 million (2016: £0.7 million) were past due but not impaired. In the table below, these comprise the receivables over 30 days, which relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of net trade receivables is as follows:

Days outstanding	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
31 – 60 days	540	267	-	-
61 – 90 days	118	250	-	-
91 – 180 days	182	90	-	-
181 – 365 days	43	47	-	-
	883	654	-	-

The provision is calculated by management on a specific basis based on their best estimate of recoverability taking into account the age and specific circumstances relating to the debtor. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security. The carrying amounts of the Group's trade and other receivables are denominated in Pounds Sterling.

Notes to the Consolidated Financial Statements *(continued)*

16 Trade and other receivables *(continued)*

Movements on the Group provision for impairment of trade receivables are as follows:

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
At 1 January	415	-	-	-
Acquired with subsidiaries	31	368	-	-
Increase in impairment provision	-	151	-	-
Utilisation of impairment provision	(66)	(104)	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December	380	415	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The creation and release of a provision for impaired receivables has been included in “administrative expenses” in the Income Statement. Amounts charged to the allowance are generally written-off, when there is no expectation of recovering additional cash.

The other asset classes within trade and other receivables do not contain impaired assets.

Amounts due from subsidiary undertakings are unsecured, interest free and are repayable on demand.

17 Stock

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Stock	366	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Stock comprises third party goods, primarily peripherals, acquired for resale.

18 Cash and cash equivalents

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Cash and cash equivalents	1,106	1,132	378	422
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Bank overdrafts are detailed in note 23, borrowings.

The table below shows the balance with the major counterparty in respect of cash and cash equivalents.

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Credit rating				
A	1,106	1,132	378	422
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes to the Consolidated Financial Statements *(continued)*

19 Trade and other payables

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Current				
Trade payables	8,766	5,715	30	63
Amounts due to subsidiary undertakings	-	-	1,178	1,182
Other payables	142	144	-	-
Taxation and social security	1,511	1,254	-	5
Accruals	5,010	1,923	48	37
	<u>15,429</u>	<u>9,036</u>	<u>1,256</u>	<u>1,287</u>

Amounts due to subsidiary undertakings are unsecured, interest free and are repayable on demand.

20 Deferred income

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Deferred income recognisable within 12 months	6,405	5,663	-	-
Deferred income recognisable after 12 months	341	-	-	-
Total deferred income	<u>6,746</u>	<u>5,663</u>	<u>-</u>	<u>-</u>

Income is deferred to the Statement of Financial Position when invoicing of revenue to customers occurs ahead of revenue recognition in the Income Statement.

21 Commitments and contingencies

a) Operating leases

Future aggregated minimum annual lease payments under non-cancellable operating leases as at 31 December 2017 are as follows:

Group	Land and Buildings		Other	
	2017 £000	2016 £000	2017 £000	2016 £000
Not later than one year	1,268	571	883	357
After one year but not more than five years	2,840	347	2,944	487
After five years	-	-	122	-
	<u>4,108</u>	<u>918</u>	<u>3,949</u>	<u>844</u>

The Group's operating leases relate to property, motor vehicles and office equipment and had remaining terms of between one and five years.

Company	Land and Buildings	Land and Buildings
	2017 £000	2016 £000
Not later than one year	-	-

b) Capital commitments

The Group had no contracted but not provided for capital commitments at 31 December 2017 (2016: £nil).

Notes to the Consolidated Financial Statements *(continued)*

21 Commitments and contingencies *(continued)*

c) Contingent liabilities

The Group's subsidiaries and the Company are currently, and may be from time to time, involved in a number of legal proceedings. As at the date of this report the group was subject to a claim for damages by Coreix Limited, in relation to a trademark infringement case. Coreix had increased the damages claim to £500,000 in January 2018, the maximum under the IPEC rules, the claim having always previously stated Coreix's solicitors to be for less than £10,000. The Board continue to reject the notion that the liability exceeds the amount originally stated and will argue that Coreix's claim should not exceed £10,000 and, even if that is not accepted by the Court, the Company's advice remains that its potential liability in respect of Coreix's claim should be materially below £500,000.

22 Provisions

Tax planning provision

The tax planning arrangements relate to two tax schemes entered into by IDE Group Manage Limited (previously CORETX Manage Limited) on behalf of ex-directors in a previous accounting year prior to becoming part of the Group. The liabilities for outstanding tax and national insurance have been settled with HMRC during 2017, the remaining position covers the potential further costs which may be incurred with the schemes.

Property provision

The Group currently has some vacant office space. Provisions have been recognised to cover the rent, business rates and service charges for the period that the office space is expected to be vacant. Provisions are calculated using the contracted rates of rents and service charges on each individual lease arrangement. Dilapidation provisions are built up over the associated lease based on estimates of costs of work required to fulfil the Group's contractual obligation under the lease agreements to return the property to the same condition as at the commencement of the lease.

Other provisions

Other provisions primarily relate to committed costs on various supplier contracts across hosting, connectivity, hardware and software services.

Group	Tax planning provision £000	Property provision £000	Other provision £000	Total £000
Balance at 1 January 2017	246	639	2,104	2,989
Acquired	-	169	229	398
Utilised	(213)	(315)	(1,125)	(1,653)
Balance at 31 December 2017	33	493	1,208	1,734
Non-current				577
Current				1,157
				1,734
Company			Other Provision £000	Total £000
Balance at 1 January 2017			275	275
Utilised			(23)	(23)
Balance at 31 December 2017			252	252
Non-current				-
Current				252
				252

Notes to the Consolidated Financial Statements (continued)

23 Borrowings

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Non-current				
Bank loan	7,500	5,500	7,500	5,500
Unamortised loan arrangement fee	(98)	(89)	(98)	(89)
Finance leases	518	322	-	-
	<u>7,920</u>	<u>5,733</u>	<u>7,402</u>	<u>5,411</u>
	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Current				
Bank overdraft	2,604	-	-	-
Finance Leases	291	764	-	-
	<u>2,895</u>	<u>764</u>	<u>-</u>	<u>-</u>

During the year, the Group integrated the banking arrangements of 365 ITMS into the Group bank facilities with The Royal Bank of Scotland plc. The facilities comprise a five year £7.5 million Revolving Credit Facility available to the Group until 22 January 2021 and a £3.5 million overdraft facility, renewable annually. In addition, the Revolving Credit Facility also contains an accordion feature that allows the total facility to be increased by up to a further £10.0 million to support organic and growth initiatives. Interest is payable on the utilised Revolving Credit Facility at 2% above LIBOR. Interest is payable on the unutilised Revolving Credit Facility at 0.8%. At 31 December 2017, £7.5 million of the Revolving Credit Facility has been utilised (2016: £5.5 million).

The carrying amounts and fair value of the non-current borrowings are as follows:

Group	Carrying	Fair	Carrying	Fair
	value 2017 £000	Value 2017 £000	Value 2016 £000	Value 2016 £000
Non-current				
Bank loan	7,500	7,098	5,500	4,995
Finance leases	518	485	322	294
	<u>8,018</u>	<u>7,583</u>	<u>5,822</u>	<u>5,289</u>

The present value of finance lease liabilities is as follows

Group	Minimum	Interest	Principal
	lease payments 2017 £000	2017 £000	2017 £000
Less than one year			
Between one and five years	336	45	291
	591	73	518
	<u>927</u>	<u>118</u>	<u>937</u>

Notes to the Consolidated Financial Statements (continued)

23 Borrowings (continued)

The present value of finance lease liabilities (continued):

Group	Minimum lease payments		Interest	Principal
	2016	2016		
	£000	£000	£000	£000
Less than one year	847	83		764
Between one and five years	368	46		322
	<u>1,215</u>	<u>129</u>		<u>1,086</u>
Company				
	Carrying value	Fair Value	Carrying Value	Fair Value
	2017	2017	2016	2016
	£000	£000	£000	£000
Non-current Bank loan	<u>7,500</u>	<u>7,098</u>	<u>5,500</u>	<u>4,995</u>

The Company has no finance leases at 31 December 2017 or at 31 December 2016.

Reconciliation of borrowings:

Group	Non-current borrowings	Current borrowings	Total Borrowings
	£000	£000	£000
Balance at 1 January 2017	5,733	764	6,497
Loan inherited in business combination	1,500	-	1,500
Increase in loan (net of repayments)	500	-	500
New finance leases	487	-	487
Reclass of finance lease repayment	(291)	291	-
Repayment of finance leases	-	(764)	(764)
Overdraft	-	2,604	2,604
Amortisation of loan fee	(9)	-	(9)
Balance at 31 December 2017	<u>7,920</u>	<u>2,895</u>	<u>10,815</u>
Company			
		Non-current Borrowings	Total Borrowings
		£000	£000
Balance at 1 January 2017		5,411	5,411
Loan inherited in business combination		1,500	1,500
Increase in loan (net of repayments)		500	500
Amortisation of loan fee		(9)	(9)
Balance at 31 December 2017		<u>7,402</u>	<u>7,402</u>

24 Financial instruments by category

The objectives of the Group's treasury activities are to manage financial risk, secure cost-effective funding where necessary and minimise adverse effects of fluctuations in the financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on cash flows of the Group.

The Group's principal financial instruments for fundraising are bank borrowings, overdraft facilities and loans. The Group has various other financial instruments such as cash, trade receivables and trade payables that arise directly from its operations.

Notes to the Consolidated Financial Statements *(continued)*

24 Financial instruments by category *(continued)*

Group		
	2017	2016
	£000	£000
Assets – loans and receivables		
Non-current financial assets	89	85
Trade receivables net of bad debt provision	8,575	5,913
Accrued income	3,030	671
Cash and cash equivalents	1,106	1,132
Total	12,800	7,801
Company		
	2017	2016
	£000	£000
Assets – loans and receivables		
Intercompany receivables	57,461	53,378
Cash and cash equivalents	378	422
Total	57,839	53,800

The carrying amount of these assets is equivalent to their fair value. At 31 December 2017, trade receivables are reported net of bad debt provision of £0.4 million (2016: £0.4 million), with trade receivables of £0.9 million (2016: £0.7 million) past due but not impaired.

Group		
	2017	2016
	£000	£000
Liabilities		
Trade payables	8,766	5,715
Accruals and other payables	5,152	2,067
Bank loan	7,500	5,500
Bank overdraft	2,604	-
Finance leases	809	1,086
Total	24,831	14,368
Company		
	2017	2016
	£000	£000
Liabilities		
Trade payables	30	63
Accruals and other payables	48	42
Intercompany payables	1,178	1,182
Bank loan	7,500	5,500
Total	8,756	6,787

The carrying amount of these liabilities is equivalent to their fair value, except for bank loans and finance leases; see note 23 to the financial statements.

The Group and Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (adjusted) prices in active markets for identical assets and liabilities;

Level 2: not traded in an active market, but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency; and

Notes to the Consolidated Financial Statements *(continued)*

24 Financial instruments by category *(continued)*

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The nature of the valuation techniques and the judgement around the inputs mean that a change in assumption could result in significant change in the fair value of the instruments.

At 31 December 2017, the Group and Company's financial instruments were held at amortised cost. The Group has not entered into any derivative financial instruments in the current or preceding period.

25 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out centrally under policies approved by the Board of Directors. Management identifies, evaluates and seeks to mitigate financial risks. The Board of Directors provide principles for overall risk management as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investments of excess liquidity.

Market risk

Foreign exchange risk

The Group mainly operates within the United Kingdom and foreign exchange risk arises from certain transactions with counterparties denominated in foreign currencies. This is not a significant risk for the Group.

Cash flow risk

The Group receives interest on cash and cash equivalents and pays interest on its borrowings.

Borrowings at variable rates expose the Group to cash flow interest rate risk. During the year ended 31 December 2017, the Group's borrowings at variable rate were denominated in Pounds Sterling with interest linked to Sterling interest rates.

The impact on post-tax profit and equity of a +/- 1% shift in the interest rate would not be material.

Price risk

The Group is not exposed to significant commodity or security price risk.

Credit risk

Credit risk is managed at a subsidiary level. Credit risk arises from cash and cash equivalents as well as credit exposures to customers, including outstanding receivables. Individual risk limits are set based on internal and external ratings and reviewed by management. The utilisation of credit limits is regularly monitored with appropriate action taken by management in the event of the breach of a credit limit. As at 31 December 2017, trade receivables of £0.4 million (2016: £0.4 million) were impaired and fully provided. As at 31 December 2017, trade receivables of £0.9 million (2016: £0.7 million) were past due but not impaired. The intercompany receivables in the Company are managed by evaluating the long term cash flows of the entities acquired in order to ensure the net balances are recoverable.

Liquidity risk

Management reviews cash forecasts of trading companies of the Group in accordance with practice and limits set by the Group. The Group's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these.

The tables below analyse the Group and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. These amounts disclosed in the table are the contracted undiscounted cash flows. Balances within 12 months equal their carrying balances as the impact of discounting is not significant.

Notes to the Consolidated Financial Statements (continued)

25 Financial risk management (continued)

Group				
At 31 December 2017	Within 1 year £000	1-2 years £000	More than 2 years £000	Total £000
Trade and other payables	15,429	-	-	15,429
Finance leases	291	169	349	809
Bank loan	-	-	7,500	7,500
Overdraft	2,604	-	-	2,604
Interest on loan & leases	237	198	133	568
	<u>18,561</u>	<u>367</u>	<u>7,982</u>	<u>26,910</u>
Group				
At 31 December 2016	Within 1 year £000	1-2 years £000	More than 2 years £000	Total £000
Trade and other payables	7,782	-	-	7,782
Finance leases	764	151	171	1,086
Bank loan	-	-	5,500	5,500
Interest on loan & leases	223	161	214	598
	<u>8,769</u>	<u>312</u>	<u>5,885</u>	<u>14,966</u>
Company				
At 31 December 2017	Within 1 year £000	1-2 years £000	More than 2 years £000	Total £000
Trade and other payables	78	-	-	78
Intercompany payables	1,178	-	-	1,178
Bank loan	-	-	7,500	7,500
Interest on bank loan	192	162	96	450
	<u>1,448</u>	<u>162</u>	<u>7,596</u>	<u>9,206</u>
Company				
At 31 December 2016	Within 1 year £000	1-2 years £000	More than 2 years £000	Total £000
Trade and other payables	105	-	-	105
Intercompany payables	1,182	-	-	1,182
Bank loan	-	-	5,500	5,500
Interest on bank loan	140	140	189	469
	<u>1,427</u>	<u>140</u>	<u>5,689</u>	<u>7,256</u>

26 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's future growth and its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group operates in the network and cloud hosting sector, which, generally requires substantial fixed asset investments, but the Group is financed predominately by equity.

In order to maintain or adjust the capital structure, the Group has previously both issued new shares and borrowed using bank facilities. The Group monitors capital on the basis of the ratio of net bank debt to adjusted EBITDA. Net debt is calculated as total bank borrowings (including 'current and non-current borrowings' as shown in the

Notes to the Consolidated Financial Statements *(continued)*

26 Capital risk management (continued)

consolidated balance sheet) less cash and cash equivalents. Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, impairment charge, exceptional items, (loss)/gain on disposal of fixed assets and share-based payments. The Group's strategy is to maintain the ongoing ratio at below 2.0x, although the bank facilities can accommodate a higher ratio. The ratio was below this level throughout the year and at 31 December 2017, was 2.01x.

The bank facilities referred to in note 23 contains various covenants in relating to EBITDA, interest cover, net debt and cash flow, which the Group monitors on a quarterly basis. The Group adopts a risk-adverse position with respect to borrowings and maintains a significant amount of headroom in its bank facilities to ensure that any unexpected situations do not create financial stress.

The Group has not proposed a dividend for the current and prior year and as a result, is retaining capital in the business to fund potential future acquisitions and to provide operational flexibility. The Group has also granted options and Employee Share Scheme awards to certain Directors and key employees. However, these do not have a significant impact on the Group's capital structure.

27 Called up share capital – Group and Company

Share capital	2017 Number	2016 Number
At 1 January – fully paid	190,902,721	71,201,993
Shares issued on Placing, 21 January 2016	-	100,000,000
Shares issued on the acquisition of Selection	-	1,353,810
Shares issued on the acquisition of C4L	-	18,346,918
Shares issued on the acquisition of 365 ITMS	9,826,400	-
	<hr/>	<hr/>
In issue at 31 December – fully paid	200,729,121	190,902,721
	<hr/>	<hr/>
	2017 £	2016 £
<i>Allotted, called up and fully paid</i>		
Ordinary shares of 2.5p	5,018,228	4,772,568
	<hr/>	<hr/>
Shares classified in shareholders' funds	5,018,228	4,772,568
	<hr/>	<hr/>

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

The Company had 71,201,993 ordinary shares issued and fully paid up as at 1 January 2016.

On 21 January 2016, 100,000,000 new ordinary shares were issued, raising £30.0 million before expenses of £0.7 million. On 21 January 2016, the Company announced the acquisition of the entire issued share capital of Selection Services Investments Limited ("Selection") for a total consideration of £34.8 million, paid as £34.4 million in cash with the balance satisfied by the issue of 1,353,810 new ordinary shares. On 15 February 2016, the Company acquired C4L Group Holdings Limited ("C4L") for a total consideration of £20.2 million, paid as £14.2 million in cash with the balance satisfied by the issue of 18,346,918 new ordinary shares.

The Company had 190,902,721 ordinary shares issued and fully paid up as at 31 December 2016.

On 5 April 2017, the Company announced the acquisition of 365 ITMS Limited ("365ITMS") for a total consideration of £4.6 million, paid as £1.6 million in cash with the balance satisfied by the issue of 9,826,400 new ordinary shares.

The Company had 200,729,121 ordinary shares issued and fully paid up as at 31 December 2017.

Dividends

The Directors do not propose a dividend for the year ended 31 December 2017 (2016: £nil).

Notes to the Consolidated Financial Statements *(continued)*

28 Share-based payment plans

The share-based payment charge comprises:

	2017 £000	2016 £000
Equity-settled share-based charges arising from ESS options	107	86
Equity-settled share-based charges arising from hurdle share options	8	5
Total	115	91

In 2017, the Group introduced a Company Share Option Plan ("CSOP") for various senior managers and issued warrants to MXC Capital Limited following the acquisition of 365 ITMS. No options were issued to any of the Directors during 2017.

In 2016, the Group introduced an Employee Share Scheme ('ESS') to the Executive Directors and various senior managers, granted Hurdle Shares to the Chairman and granted evergreen warrants to MXC Capital Limited.

	MXC warrants Number of options	ESS number of options	Hurdle shares number of options	Total number of options
Options granted at 1 January 2016				
21 January 2016	8,627,790	-	-	8,627,790
15 February 2016	917,346	-	-	917,346
16 March 2016	-	3,017,083	-	3,017,083
4 May 2016	-	-	666,666	666,666
Total Options granted at 31 December 2016	9,545,136	3,017,083	666,666	13,228,885
5 April 2017	491,320	-	-	491,320
Total Options granted at 31 December 2017	10,036,456	3,017,083	666,666	13,720,205

On 21 January 2016, in consideration of MXC Capital Limited's agreement to subscribe in the Placing, MXC Capital Limited was granted evergreen warrants over 5 percent of the enlarged issued share capital of the Company as at the date of the Company's readmission to trading on AIM at 30 pence per share, subject to adjustment to reflect any further equity issues, which occurred on 15 February 2016. The warrants are exercisable between the third and seventh anniversaries of date of the initial grant, provided the share price meets or exceeds 42 pence per Ordinary Share on or before the third anniversary. If the target share price is not met by the third anniversary, the target period is extended by a further two years.

On 16 March 2016, the Company made awards to certain Directors and key employees under the Company's recently established Employee Share Scheme ("ESS"). The beneficiaries of the ESS will be entitled to receive a share in a pool of up to 5 per cent of shareholder value created, subject to share price performance criteria, and need to have been employed by the Group for a minimum period of three years. Shareholder value is defined as the growth in the market capitalisation of the Company from the base value over a period of at least three years, and up to seven years, from 21 January 2016, taking dividends and capital returns into account, if any. The awards are exercisable at nil cost until the seventh anniversary from 21 January 2016. The base value is defined as the aggregate value of all the Ordinary Shares in the Company in issue at 21 January 2016 at 30 pence per Ordinary Share as adjusted for the issue of new Ordinary Shares after that date. Options awarded under the ESS scheme lapse if the recipient resigns.

On 4 May 2016, 100 B Ordinary Shares of 0.001 pence in IDE Group Limited, a subsidiary company, were awarded to Jonathan Watts under Hurdle Shares. The Hurdle Shares grant rights over 666,666 options of 2.5 pence Ordinary Shares in the Company. The options can be exercised after 21 January 2019 for a period of a further two years, subject to share performance criteria based on the growth in the market capitalisation of the Company, taking into account dividends and capital returns, if any. The options have an exercise price of 30 pence per Ordinary Share. The options awarded to Jonathan Watts lapsed on 9 January 2018 when he resigned.

Notes to the Consolidated Financial Statements *(continued)*

28 Share-based payment plans *(continued)*

On 5 April 2017, MXC Capital were awarded warrants of 491,320, representing 5% of the share capital issued in connection with the acquisition of 365 ITMS Limited.

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

	2017 Number	2017 WAEP	2016 Number	2016 WAEP
Opening balance	13,228,885	£0.30	-	-
Granted during the year	491,320	£0.30	13,228,885	£0.30
Lapsed during the year	-	-	-	-
Closing balance	13,720,205	£0.30	13,228,885	£0.30

There were no options exercisable at 31 December 2017 (2016: nil).

The range of exercise prices for options outstanding at the end of the year was £0.30 (2016: £0.30).

The fair value of the equity-settled share options granted is estimated at the date of grant using an average of Black Scholes and an empirical model to take into account market conditions attaching to the options granted throughout the year. Volatility was calculated based upon the change in the daily share price of the company over the last 23 months since the Group in its present structure was launched. The key inputs into the model were:

Volatility	29.32%
Risk-free rate	0.50%
Expected life	5 years
Expected dividend	nil

29 Pensions

The Group operates defined contribution pension schemes for eligible employees. The charge for the year ended 31 December 2017 relating to continuing operations is £708K (2016: £508K). An amount of £71K is included in creditors being outstanding contributions at 31 December 2017 (2016: £43K).

30 Related parties

The Group has taken advantage of the exemption allowing it not to disclose transactions with entities wholly-owned by the Group.

Key management is considered to comprise only the Directors. Directors' emoluments, including share based payments are disclosed in note 9. Social security costs in respect of Directors' emoluments were £67K (2016: £99K), of which £nil (2016: £22K) relates to social security costs on the Employee Share Scheme.

Andy Ross, Chief Executive Officer at 31 December 2017 was a partner of MXC Capital Limited until 31 July 2017. MXC Capital Limited owned 21.0% of the issued share capital of the Company at 31 December 2017.

During the year, the Group and Company paid MXC Capital Limited for consultancy services, corporate finance advice and other services amounting to £152,000 (2016: £1,071,243) excluding VAT. Invoices totalling £nil were outstanding at 31 December 2017 (2016: £3,000). In addition, the Group paid MXC Advisory Limited, a subsidiary of MXC Capital Limited, fees of £11,667 excluding VAT (2016: £161,743) in respect of the services of Andy Ross as Chief Executive Officer of the Group for the year ended 31 December 2017. Invoices totalling £nil were outstanding at 31 December 2017 (2016: £17,400).

At 31 December 2017, in addition to owning shares in the Company, MXC Capital Limited held warrants over 10,036,456 shares in the Company (2016: 9,545,136 shares).

Notes to the Consolidated Financial Statements *(continued)*

30 Related parties *(continued)*

In the year ended 31 December 2017, the Group and Company paid rent of £nil (2016: £1,500) to Biebod Properties Limited, a company controlled by Bill Dobbie, a Director of the Company. There are no payables outstanding at 31 December 2017 (2016: £nil).

The Company had the following balances with related parties:

	2017 £000	2016 £000
Receivables		
IDE Group Limited	52,566	48,210
IDE Group Manage Limited	1,442	1,815
IDE Group Connect Limited	3,292	3,192
Assistance Genie Logiciel	161	161
	<hr/>	<hr/>
Total	57,461	53,378
	<hr/>	<hr/>
	2017 £000	2016 £000
Payables		
Cupid.com inc	1,033	1,033
Castle Digital services inc	61	61
Selection Services Limited	61	61
Hooya Digital Limited	16	20
Connexions4London Limited	5	6
Aggregated Telecom Limited	2	1
	<hr/>	<hr/>
Total	1,178	1,182
	<hr/>	<hr/>

31 Post balance sheet events

Jonathan Watts resigned as Chairman on 9 January 2018 and was replaced by Bill Dobbie as Interim Chairman. Andy Ross resigned on 22 March 2018 and Julian Phipps assumed the role of Chief Operating Officer. Options awarded to both resigning Directors lapsed upon their resignation dates.