

Gladstone Limited

Annual Report and consolidated financial statements

For the year ended 31 December 2018



GLADSTONE LIMITED

COMPANY INFORMATION

Directors	B Symons J R MacKinnon S R Saklad D P Boxall R Clancy
Secretary	J Belghoul
Company number	03327360
Registered office	Gladstone House Hithercroft Road Wallingford Oxfordshire OX10 9BT
Independent auditors	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor 3140 Rowan Place John Smith Drive Oxford OX4 2WB

GLADSTONE LIMITED

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GLADSTONE LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

Introduction

The Directors present the Strategic report and Financial Statement for the year ended 31 December 2018.

Business review

Gladstone Limited and its subsidiaries ("the Group") are wholly owned subsidiaries of Constellation Software Inc. a Canadian company listed on the Toronto Stock Exchange ("TSX").

As wholly owned subsidiaries, the Group benefits from the operational and financial support of its ultimate parent and its intermediate parent company, Gary Jonas Computing Ltd ("Jonas"). Jonas is the leading provider of enterprise management software solutions to the Club, Leisure Fitness and Sports, Salon and Spa, Foodservice, Construction, Attractions, Metal Service Centres, Moving and Storage, Education, Hotel and Hospitality, Camps, Event Management, Radiology/Laboratory Information Systems, Consumer Product Licensing, Payment Processing, Dynamic Case Management and Retail industries.

Principal risks and uncertainties

The continued consolidation of the sector is providing both opportunity to grow as existing clients extend their portfolio and risk as competitor clients take control of existing customer operations.

The Group's core client base of local authority funded service providers (trusts, contractors and direct service organisations) are experiencing reductions in traditional government funding as austerity measures and budget cuts bite harder. This will continue to force existing clients to test for market value and seek fee reductions from all service providers.

The competition in our core market sector remains largely unchanged with the same providers holding similar market share over the past 12 months and no significant change anticipated in the next 24 months.

Despite these challenges, the Group's product refresh program is continuing to enable it to maintain a strong competitive position and enable growth in both the existing client base and win new customers.

Financial key performance indicators

In alignment with group policy, the Group considers its Key Performance Indicators ("KPIs") to be those which drive shareholder value, namely Net Revenue Growth ("NRG") and Profitability.

	2018	2017	2016
Growth/(decline) in gross profit	11.9%	(1.5%)	n/a
Profit before tax	£3,230,925	£2,103,854	£4,006,798

GLADSTONE LIMITED

STRATEGIC REPORT (CONTINUED)

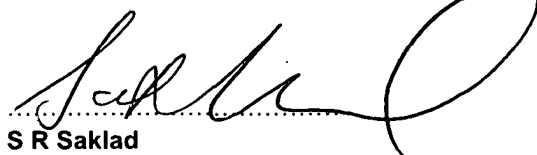
FOR THE YEAR ENDED 31 DECEMBER 2018

In addition to the above KPIs, the Group also pays close attention to its net current assets position. Jonas requires that the Group is party to a central corporate treasury function which allows the group to centrally manage its liquidity and financial risks whilst ensuring capital is deployed globally in the most effective manner. However, this can mean that locally the financial strength of the Group is not necessarily conveyed by the net current asset position when reading these financial statements in isolation. To fully understand the size and strength of the corporate group of which the Group is a part, these financial statements should be read in conjunction with those of Constellation Software Inc.

Future developments

During 2017 we released a new product to support the need of our customers to manage and report on the outcomes of new health and well-being programs that they are delivering on behalf of more diversified funding partnerships. We will continue to develop the product and sell to the market.

This report was approved by the board on 9/12/19 and signed on its behalf.



S R Saklad
Director

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GLADSTONE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors present their report and financial statements for the year ended 31 December 2018.

Principal activities

The principal activity of the Company was that of a holding company. The principal activity of the Group was the provision of computer software and consultancy services.

Directors

The directors who held office during the period and up to the date of signature of the financial statements were as follows:

B Symons	(resigned 1 November 2018, appointed 1 January 2019)
J R MacKinnon	(resigned 1 November 2018, appointed 1 January 2019)
S R Saklad	(appointed 1 November 2018)
D P Boxall	(appointed 1 November 2018)
R Clancy	(appointed 1 November 2018)
A Morris	(resigned 1 November 2018)

Results and dividends

The results for the year are set out on page 9.

Ordinary dividends of £2,365,000 (2017 - £2,150,000) were paid. The directors do not recommend payment of a final dividend (2017 - £nil).

Going concern

The consolidated financial statements have been prepared on the going concern basis which assumes that the Group will continue in operational existence for the foreseeable future. The directors have reviewed the working capital requirements of the group for a period of at least 12 months from the anticipated date of signing of the financial statements and are satisfied that the Group will be able to meet its liabilities as they fall due.

Auditors

The auditors, Grant Thornton UK LLP, will be proposed for reappointment with section 485 of the Companies Act 2006.

Strategic Report

The Directors have chosen in accordance with section 414C(11) of the Companies Act 2006 to include in the Strategic Report matters otherwise required to be disclosed in the Directors' Report as the directors consider these are of strategic importance to the company

GLADSTONE LIMITED

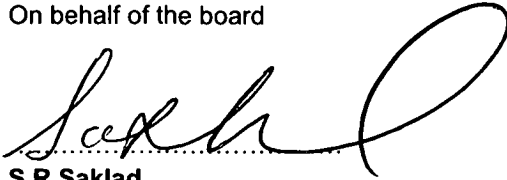
DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Statement of disclosure to auditors

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



S R Saklad

Director

9/12/19

GLADSTONE LIMITED

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

Company law requires the directors to prepare Group and Company financial statements for each financial year. The directors have elected under company law to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Accounting Standards and applicable law).

The group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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

In preparing each of the group and company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs adopted by the EU and for the company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the company financial statement;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GLADSTONE LIMITED

Opinion

We have audited the financial statements of Gladstone Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018, which comprise which comprises the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Parent company Statement of Financial Position, the Parent company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, Financial Reporting Standard (FRS) 101 'Reduced Disclosure Framework' and 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 2018 and of the group's profit 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 FRS 101; 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GLADSTONE LIMITED (CONTINUED)

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.

Matter on which we are required to report under the Companies Act 2006

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.

Matters on which we are required to report by exception

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 GLADSTONE LIMITED (CONTINUED)

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 5, 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.

Use of our report

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



Grant Thornton UK LLP

Amanda James
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Southampton

Date: 10 December 2019

GLADSTONE LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £	2017 £
Revenue	4	11,915,246	10,671,826
Cost of sales	5	(194,050)	(197,466)
Gross profit		11,721,196	10,474,360
Administrative expenses	5	(8,490,981)	(8,369,683)
Operating profit		3,230,215	2,104,677
Finance income	8	725	350
Finance costs	9	(15)	(1,173)
Profit before tax		3,230,925	2,103,854
Income tax expense	10	(622,608)	(10,291)
Profit for the year		2,608,317	2,093,563
Other comprehensive income		-	-
Total comprehensive income for the year		2,608,317	2,093,563

The accompanying accounting policies and notes form an integral part of the financial statements.


GLADSTONE LIMITED

Company Registration No. 03327360

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**AS AT 31 DECEMBER 2018**

	Notes	2018 £	2017 £	As at 1 January 2017 £
ASSETS				
Non-current assets				
Property, plant and equipment	12	552,536	589,185	248,335
Goodwill	13	1,727,971	1,727,971	1,727,971
Other intangible assets	14	1	1	501,582
Contract assets		42,389	-	-
Total non-current assets		2,322,897	2,317,157	2,477,888
Current assets				
Inventories	15	30,126	21,843	34,307
Contract assets		9,986	-	-
Trade and other receivables	16	22,992,818	23,059,763	19,691,869
Deferred tax assets		30,150	77,815	44,952
Cash and cash equivalents		49,585	142,459	496,677
Total current assets		23,112,665	23,301,880	20,267,805
Total assets		25,435,562	25,619,037	22,745,693
LIABILITIES AND EQUITY				
Non-current liabilities				
Deferred income		52,938	-	-
Current liabilities				
Borrowings		166,963	121,317	-
Trade and other payables	19	14,109,052	15,154,936	11,720,801
Current tax liabilities		404,451	68,675	424,415
Deferred income		2,465,833	2,217,218	2,487,149
Total liabilities		17,199,237	17,562,146	14,632,365
Equity				
Called-up share capital	22	4,297,039	4,297,039	4,297,039
Share premium account		1,373,026	1,373,026	1,373,026
Other reserves		3,685,258	3,685,258	3,685,258
Retained earnings		(1,118,998)	(1,298,432)	(1,241,995)
Total liabilities and equity		25,435,562	25,619,037	22,745,693

The financial statements on pages 9 to 42 were approved by the Board of Directors and authorised for issue on 9/12/19 and are signed on its behalf by:



S R Saklad
Director

The accompanying accounting policies and notes form an integral part of the financial statements.

GLADSTONE LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Share capital £	Share premium £	Other reserves £	Retained earnings £	Total £
Balance at 1 January 2017		4,297,039	1,373,026	3,685,258	(1,241,995)	8,113,328
Profit and total comprehensive income for the year		-	-	-	2,093,563	2,093,563
Transactions with owners in their capacity as owners: Dividends	11	-	-	-	(2,150,000)	(2,150,000)
Total transactions with owners in their capacity as owners		-	-	-	(2,150,000)	(2,150,000)
Balance at 31 December 2017		4,297,039	1,373,026	3,685,258	(1,298,432)	8,056,891
Adjustment for IFRS 15		-	-	-	(63,883)	(63,883)
Profit and total comprehensive income for the year		-	-	-	2,608,317	2,608,317
Transactions with owners in their capacity as owners: Dividends	11	-	-	-	(2,365,000)	(2,365,000)
Balance at 31 December 2018		4,297,039	1,373,026	3,685,258	(1,118,998)	8,236,325

The accompanying accounting policies and notes form an integral part of the financial statements.

GLADSTONE LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £	2017 £
Operating activities			
Cash generated from operations	24	2,480,525	2,442,697
Interest paid		(15)	(1,173)
Income taxes paid		(239,168)	(398,894)
Net cash generated from operating activities		2,241,342	2,042,630
Investing activities			
Purchase of property, plant and equipment	12	(15,587)	(368,515)
Interest received		725	350
Net cash used in investing activities		(14,862)	(368,165)
Financing activities			
Dividends paid to owners of the parent company	11	(2,365,000)	(2,150,000)
Net used in financing activities		(2,365,000)	(2,150,000)
Net decrease in cash and cash equivalents		(138,520)	(475,535)
Cash and cash equivalents at 1 January 2018		21,142	496,677
Cash and cash equivalents at 31 December 2018		(117,378)	21,142
Cash and cash equivalents per the statement of financial position		49,585	142,459
Less bank overdrafts	19	(166,963)	(121,317)
Cash and cash equivalents for the statement of cash flows purpose		(117,378)	21,142

The accompanying accounting policies and notes form an integral part of the financial statements.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 DECEMBER 2018

General information

Gladstone Limited ("the Company") is a private company limited by shares and incorporated and domiciled in England. The address of the Company's registered office and principal place of business is Gladstone House, Hithercroft Road, Wallingford, Oxfordshire, OX10 9BT.

The principal activity of Gladstone Limited, together with its subsidiaries ("the Group"), is the provision of computer software and consultancy services.

The Group is ultimately controlled by Constellation Software Inc. incorporated and domiciled in Canada, which holds 100% of the ordinary shares of Gladstone Limited.

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretation Committee interpretations ("IFRS IC"), as adopted by the European Union. They have been prepared under the historical cost convention in accordance with those parts of the Companies Act 2006 that are applicable to companies that prepare consolidated financial statements in accordance with IFRS.

For periods from 31 December 2010 up to and including the year ended 31 December 2017, the Group prepared its financial statements in accordance with UK generally accepted accounting practice (UK GAAP – FRS 101). These financial statements for the year ended 31 December 2018 are the first since 31 August 2009 that the Group has prepared in accordance with IFRS. Refer to note 2 for information on how the Group adopted IFRS.

The consolidated financial statements comprise a statement of comprehensive income, a statement of financial position, a statement of changes in equity, a statement of cash flows, and notes. Transactions with the owners of the Group in their capacity as owners are recognised in the statement of changes in equity.

The Group presents the statement of comprehensive income using the classification by function of expenses. The Group believes this method provides more useful information to the users of its financial statements as it better reflects the way operations are run from a business point of view. The statement of financial position format is based on a current / non-current distinction.

Measurement bases

The consolidated financial statements have been prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The preparation of the consolidated financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates and management judgements in applying the accounting policies. The significant estimates and judgements have been made and their effect is disclosed in note 1.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Basis of consolidation

The consolidated financial statements incorporate those of Gladstone Limited and all of its subsidiaries (i.e. entities that the Group controls through its power to govern the financial and operating policies so as to obtain economic benefits).

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

Going concern

The consolidated financial statements have been prepared on the going concern basis which assumes that the Group will continue in operational existence for the foreseeable future. The directors have reviewed the working capital requirements of the group for a period of at least 12 months from the anticipated date of signing of the financial statements and are satisfied that the Group will be able to meet its liabilities as they fall due.

Foreign and functional currencies

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The functional currency of the Group is Sterling (£). The financial statements are presented in Sterling, this being the currency of the economic environment of the Group. Monetary amounts in these financial statements are rounded to the nearest £1.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Revenue

Revenue represents the amount the Group expects to receive for products and services in its contracts with customers, net of discounts and VAT. The Group recognises revenue under four revenue categories being, License, Hardware and other, Professional services, and Maintenance and other recurring revenue. Software license revenue is comprised of non-recurring license fees charged for the use of software products licensed under multiple-year or perpetual arrangements. Professional service revenue consists of fees charged for implementation services, custom programming, product training and consulting. Hardware and other revenue includes the resale of third party hardware as part of customised solutions, as well as sales of hardware assembled internally and the reimbursement of travel costs. Maintenance and other recurring revenue primarily consists of fees charged for customer support on software products post-delivery and also includes recurring fees derived from combined software/support contracts, transaction revenues, managed services, and hosted products.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Revenue (continued)

Contracts with multiple products or services

Typically, the Group enters into contracts that contain multiple products and services such as software licenses, hosted software-as-a-service, maintenance, professional services, and hardware. The Group evaluates these arrangements to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the product or service is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Group's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation. Where a contract consists of more than one performance obligation, revenue is allocated to each based on their estimated standalone selling price (SSP).

Nature of products and services

The Group sells on-premise software licenses on both a perpetual and specified-term basis. Revenue from the license of distinct software is recognised at the time that both the right-to-use the software has commenced and the software has been made available to the customer. Certain of the Group's contracts with customers contain provisions that require the customer to renew optional support and maintenance in order to maintain the active right to use a perpetual or term license. The renewal payments after the initial bundled support and maintenance term in these cases apply to both the continued right-to-use the license and the support and maintenance renewal. Where the fees payable for the initial term are incremental to the fees for the renewal terms, the excess is treated as a prepayment for expected renewals and allocated (amortised) evenly over the expected customer renewals, up to the estimated life of the software that is typically 4-6 years. Revenue from the license of software that involves complex implementation or customisation that is not distinct, and/or includes sales of hardware that is not distinct, is recognised as a combined performance obligation using the percentage-of-completion method based either on the achievement of contractually defined milestones or based on labour hours.

A portion of the Group's sales, categorised as hardware and other revenue, are accounted for as product revenue. Product revenue is recognised when control of the product has transferred under the terms of an enforceable contract.

Revenue related to the customer reimbursement of travel related expenses incurred during a project implementation where the Group is the principal in the arrangement is included in the hardware and other revenue category. Revenue is recognised as costs are incurred which is consistent with the period in which the costs are invoiced. Reimbursable travel expenses incurred for which an invoice has not been issued, are recorded as part of unbilled revenue on the statement of financial position.

Maintenance and other recurring revenue primarily consists of fees charged for customer support on software products post-delivery and also includes, to a lesser extent, recurring fees derived from software licenses that are not distinct from maintenance, transaction revenues, managed services, and hosted products.

Revenue from software-as-a-service (SaaS) arrangements, which allows customers to use hosted software over a term without taking possession of the software, are provided on a subscription basis. Revenue from the SaaS subscription, which includes the hosted software and maintenance is recognised rateably over the term of the subscription. Significant incremental payments for SaaS in an initial term are recognised rateably over the expected renewal periods, up to the estimated life of the software.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Revenue (continued)

Professional services revenue including installation, implementation, training and customization of software is recognised by the stage of completion of the performance obligation determined using the percentage of completion method noted above or as such services are performed as appropriate in the circumstances. The revenue and profit of fixed price contracts is recognised on a percentage of completion basis when the outcome of a contract can be estimated reliably. When the outcome of the contract cannot be estimated reliably but the Company expects to recover its costs, the amount of expected costs is treated as variable consideration and the transaction price is updated as more information becomes known.

The timing of revenue recognition often differs from contract payment schedules, resulting in revenue that has been earned but not billed. These amounts are included in unbilled revenue. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of deferred revenue.

Other income

Interest income

Interest income is accrued on a time-apportioned basis, by reference to the principal outstanding at the effective interest rate.

Rental income

Rental income on assets leased under operating leases is recognised on a straight-line basis over the lease term and is presented within other operating income.

Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost amounts to their residual values over their estimated useful lives, as follows:

Freehold property	50 years straight line
Leasehold improvements	over the term of the lease or estimated useful life, whichever is shorter
Fixtures and fittings	5 years straight line
Computer equipment	3-5 years straight line

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Administrative expenses' in the statement of comprehensive income.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses.

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of a related business combination and represent the lowest level within the Group at which management monitors goodwill.

Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost, being reflective of fair value, less accumulated amortisation and impairment losses. Subsequent expenditures are capitalised only when it increases the future economic benefits that form part of the specific asset to which it relates and other criteria have been met. Otherwise all other expenditures are recognised in the statement of comprehensive income as incurred.

Amortisation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are acquired and available for use, since this most closely reflects the expected usage and pattern of consumption of the future economic benefits embodied in the asset. To determine the useful life of the technology assets, the Group considers the length of time over which it expects to earn or recover the majority of the present value of the forecasted cash flows of the related intangible assets. The estimated useful lives for the current and comparative periods are as follows:

Intellectual property	20 years straight line
Customer relationships	5 to 20 years straight line

Impairment of intangible assets and property, plant and equipment

At each reporting end date, the Group reviews the carrying amounts of its intangible assets and property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of 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 value 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Impairment of intangible assets and property, plant and equipment (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) prior years. A reversal of an impairment loss is recognised immediately in the statement of comprehensive income, unless the relevant asset is carried in at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are carried in the consolidated statement of financial position at the lower of cost and net realisable value. Cost is determined on a first-in first-out (FIFO) basis. The cost of work in progress and finished goods comprises materials, direct labour and attributable production overheads based on normal levels of activity.

Write-down is made for obsolete and slow-moving items based on their expected future use and net realisable value. Net realisable value is the estimated sales price in the ordinary course of business after allowing for all further costs of completion and disposal.

Borrowing costs

All borrowing costs are recognised in the statement of comprehensive income in the year in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss (FVTPL) are recognised immediately in profit or loss.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Financial instruments (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each end of reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

The Group recognises an allowance for expected credit losses, or an ECL, for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Financial instruments (continued)

Reclassification of financial assets

Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short-term. In all cases, reclassifications of financial assets are limited to debt instruments. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss.

A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Financial instruments (continued)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position includes cash in hand, deposits held at call with banks and cash equivalents. Bank accounts held which have an original maturity of more than three months, or which are subject to significant restrictions over access, are not presented as cash at bank and in hand. Such amounts are shown separately as short-term investments or other financial assets with appropriate disclosure of the related terms.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Current and deferred income tax (continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is recognised on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is released or the deferred income tax liabilities is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Pensions

The Group operates a defined contribution pension scheme for employees. Contributions are paid as fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Dividends

Dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

Research and development

In the research phases of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence expenditure on research and development shall be recognised as an expense when incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the assets will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were incurred in the research phase only.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

New standards and interpretations not yet adopted

In January 2016, the IASB issued the final publication of the IFRS 16 Leases standard, which will supersede the current IAS 17, Leases standard. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognised on the statement of financial position at inception. The accounting treatment for lessors will remain largely the same as under IAS 17.

The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15. The Group is required to retrospectively apply IFRS 16 to all existing leases as of the date of transition and has the option to either:

- apply IFRS 16 with full retrospective effect; or
- recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application.

As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application.

The Group will be adopting IFRS 16 on January 1, 2019 and is assessing the impact of this standard on its consolidated financial statements; however, the Group believes that on adoption of the standard there will be an increase to assets and liabilities, as the Group will be required to record a right-of-use asset and a corresponding lease liability on its Consolidated Statements of Financial Position, as well as a decrease to operating costs, an increase to finance costs (due to accretion of the lease liability) and an increase to depreciation (due to depreciation of the right-of-use asset).

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Judgement in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements required management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities income and expenses. Actual results may differ from the estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Estimates are based on historical experience and other assumptions that are considered reasonable in the circumstances. The actual amount of values may vary in certain instances from the assumption and estimates made. Changes will be recorded, with corresponding effect in the statement of comprehensive income, when, and if, better information is obtained.

Information about assumptions and estimation uncertainties that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below.

The recognition of deferred tax assets is based on forecasts of future taxable profit. The measurement of future profit for the purposes of determining whether or not to recognise deferred tax assets depends on many factors, including the Group's ability to generate such profits and the implementation of effective tax planning strategies. The occurrence or non-occurrence of such events in the future may lead to significant changes to the measurement of deferred tax assets.

In recognising provisions, the Group evaluates the extent to which it is possible that it has incurred a legal or constructive obligation in respect of past events and the probability that there will be an outflow of benefits as a result. The judgement used to recognise provisions are based on currently known factors which may vary over time, resulting in changes in the measurement of recorded amounts as compared to initial estimates.

The annual amortisation charge for other intangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments and economic utilisation. See note 15 for the carrying amount of the other intangible assets and the accounting policies for the useful economic lives for each class of assets.

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 12 for the carrying amount of the property, plant and equipment and the accounting policies for the useful economic lives for each class of assets.

The Group makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience. See note 16 for the net carrying amount of the receivables

The impairment analysis of goodwill and tangible and other intangible assets requires an estimation of the value in use of the asset or the cash-generating unit to which the assets are allocated. Estimation of the value in use is primarily based on discounted cash flow models which require the Group to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to choose an appropriate discount rate in order to calculate the present value of the cash flows.

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

2 First time adoption of IFRS

These financial statements, for the year ended 31 December 2018, are the first the Group has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2017, the Group prepared its financial statements in accordance with UK generally accepted accounting principle (UK GAAP – FRS 101).

Accordingly, the Group has prepared financial statements that comply with IFRS applicable as at 31 December 2018, together with the comparative period data for the year ended 31 December 2017, as described in the summary of significant accounting policies. In preparing the financial statements, the Group's opening statement of financial position was prepared as at 1 January 2017, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its UK GAAP – FRS 101 financial statements, including the statement of financial position as at 1 January 2017 and the financial statements for the year ended 31 December 2017.

Exemptions applied

IFRS 3 Business Combinations has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before 1 January 2017. Use of this exemption means that the UK GAAP – FRS 101 carrying amounts of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The Group did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements.

IFRS 1 also requires that the Local GAAP carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, the Group has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2017.

The Group has not applied IAS 21 retrospectively to fair value adjustments and goodwill from business combinations that occurred before the date of transition to IFRS. Such fair value adjustments and goodwill are treated as assets and liabilities of the parent rather than as assets and liabilities of the acquiree. Therefore, those assets and liabilities are already expressed in the functional currency of the parent or are non-monetary foreign currency items and no further translation differences occur.

Remeasurement at transition

No figures included in the statement of comprehensive income, statement of financial position, statement of changes in equity, or the statement of cash flows at 1 January 2017 or 31 December 2017 have changed as a result of remeasurement under IFRS.

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

3 Changes in accounting policies

IFRS 9 Financial Instruments

IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement, on the classification and measurement of financial assets. IFRS 9 eliminates the existing IAS 39 categories of held to maturity, available for-sale and loans and receivable.

Financial assets are classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Gains and losses on remeasurement of financial assets measured at fair value will be generally recognized in profit or loss, except for an investment in an equity instrument which is not held-for-trading. IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income ("OCI") ("FVOCI"). The election is available on an individual investment-by-investment basis. Amounts presented in OCI will not be reclassified to profit or loss at a later date. IFRS 9 also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss ("ECL") model. The new impairment model applies to financial assets at amortised cost, contract assets and debt instruments measured at FVOCI.

The Group adopted this standard on January 1, 2018 and it had a nominal impact on the Group's consolidated financial statements and related disclosures.

IFRS 15 Revenue from Contracts with Customers

On May 28, 2014 the IASB issued IFRS 15, Revenue from Contracts with Customers. The standard contains a single model that applies to contracts with customers. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. New estimates and judgemental thresholds have been introduced, which may affect the amount and timing of revenue recognised. The Group has adopted IFRS 15, effective January 1, 2018, using the cumulative effect method. Under the cumulative effect method, the Group has recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings as at January 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11.

The details of the primary changes on adoption of IFRS 15 are set out below.

A. Software license arrangements (including subscription arrangements):

Under the Group's previous revenue recognition policies, license revenue from term-based licenses was generally deferred and amortised on a rateable basis over the license term. Under IFRS 15, the Group has deemed the licenses to be generally distinct from other performance obligations. Revenue allocated to the distinct license is recognised at the time that both the right-to-use the software has commenced for the term and the software has been made available to the customer.

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

3 Changes in accounting policies (continued)

Certain of the Group's contracts with customers contain provisions that require the customer to renew optional support and maintenance in order to maintain the active right-to-use a perpetual or term license. The renewal payments after the initial bundled support and maintenance term in these cases apply to both the continued right-to-use the license and the support and maintenance renewal. Where the fees payable for the initial term are incremental to the fees for the renewal terms, the excess is treated as a prepayment for expected renewals and allocated (amortised) evenly over the expected customer renewals, up to the estimated life of the software, that is typically 4-6 years. The Group's previous policy with respect to such incremental upfront license fees was to recognise the fee primarily over the initial first year term of the arrangements.

B. Costs to obtain a contract

Under the Group's previous accounting policies, the Group generally expensed incremental commission costs paid to employees or third parties to obtain customer contracts as incurred. Under IFRS 15, the Group allocates these incremental commission costs to the various performance obligations to which they relate using the expected-based allocation for bundled commissions (relative expected margins). For those performance obligations that are expected to be renewed at the end of the initial period without a further commission (such as post-contract customer support), the Group has considered expected renewals over the life of the intellectual property when determining the expected margins from the arrangement. For performance obligations not delivered upfront, the allocated commissions are deferred and amortised over the pattern of transfer of the related performance obligation. For commissions allocated to term-based license arrangements and post-contract customer support, the amortisation period is expected to be approximately 4-6 years. Capitalised costs to obtain a contract are included in other non-current assets on the consolidated statement of financial position.

The following table details the impact on our opening statement of financial position as a result of adopting the new standard.

	1 January 2018 prior to adoption of IFRS 15 £	Adjustments £	1 January 2018 after adoption of IFRS 15 £
Assets			
Current assets:			
Contract assets	-	188,256	188,256
Deferred tax assets	77,815	14,023	91,838
Inventories (work in progress)	-	9,048	9,048
Liabilities			
Current liabilities			
Deferred income	(2,217,218)	(275,209)	(2,492,427)
Net assets	8,056,891	(63,883)	7,993,008
Equity			
Shareholders equity			
Retained earnings	(1,298,432)	(63,883)	(1,362,315)

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

3 Changes in accounting policies (continued)

The following tables summarises the impacts of adopting IFRS 15 on the consolidated financial statements for the year ended December 31, 2018:

	31 December 2018 as reported £	Adjustments £	31 December 2018 without adoption of IFRS 15 £
Assets			
Non-current assets:			
Contract assets	42,389	(42,389)	-
Non-current assets:			
Contract assets	9,986	(9,986)	-
Inventories (work in progress)	8,759	(8,759)	-
Liabilities			
Non-current liabilities			
Deferred income	52,938	(52,938)	-
Current liabilities			
Deferred income	2,465,833	(177,814)	2,288,019
Net assets	15,888,819	(169,619)	(15,716,200)
Equity			
Shareholders equity			
Retained earnings	(1,118,998)	(3,141)	(1,122,139)
	31 December 2018 as reported £	Adjustments £	31 December 2018 without adoption of IFRS 15 £
Revenue	11,915,246	(108,881)	11,806,365
Expenses	(8,684,321)	183,870	8,500,451
Profit before tax	3,230,925	74,989	3,305,914
Income tax expenses	(622,608)	(14,248)	(636,856)
Profit for the year	2,608,317	60,741	2,669,058

The adoption of IFRS 15 had no impact to cash from or used in operating, financing, or investing activities on the consolidated statement of cash flows.

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

3 Changes in accounting policies (continued)

The following tables provides information about unbilled revenue and deferred revenue

Unbilled revenue	£
At 1 January 2018	-
Increase from IFRS 15 opening adjustment	9,048
Decrease from transfers to accounts receivable	(4,411)
Foreign exchange and other movements	4,122
At 31 December 2018	8,759
	£
Unbilled revenue classified as a current asset	8,759
Deferred revenue	£
At 1 January 2018	2,217,218
Increase from IFRS 15 opening adjustment	275,209
Decrease from revenue recognised that was included in the deferred revenue balance at the beginning of the period	(2,318,659)
Increase due to cash received, excluding amounts recognised as revenue during the period	2,628,801
Foreign exchange and other movements	(283,798)
At 31 December 2018	2,518,771
	£
Deferred revenue classified as a current liability	2,465,833
Deferred revenue classified as a non-current liability	52,938

The amount of revenue recognised in the year ended 31 December 2018 from performance obligations satisfied in previous periods was £nil.

Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognised ("contracted not yet recognised") and includes unearned revenue and amounts that will be invoiced and recognised as revenue in future periods. Contracted not yet recognised revenue was approximately 3,632,403 as of 31 December 2018, of which the Group expect to recognise an estimated 97% of the revenue over the next 12 months and the remainder thereafter.

Under IFRS 15, the Group has capitalised and amortised incremental commission costs on a systematic basis, consistent with the pattern of transfer of the good(s) or service(s) to which the commission relates as the Group believes these costs are recoverable. The total capitalised commission costs as of 31 December 2018 is £52,374. The amount of amortisation was £183,870 and there was no impairment loss in relation to the costs capitalised.

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

4 Revenue

Revenue is derived from the principal activity of the Group, which is considered to be the sole class of business. Analysis of the Group's revenue by geographical location is as follows:

	2018 £	2017 £
United Kingdom	10,996,825	10,254,432
Rest of Europe	377,263	116,603
Rest of the world	541,158	300,791
	<u>11,915,246</u>	<u>10,671,826</u>

5 Analysis of expenses by nature

The breakdown by nature of cost of sales, distribution costs and other administrative expenses is as follows:

	2018 £	2017 £
Employee remuneration	<u>6,867,753</u>	<u>5,923,840</u>
Intangible assets		
Amortisation of other intangible assets	<u>-</u>	<u>501,581</u>
Property, plant and equipment		
Depreciation of property, plant and equipment	52,236	27,665
Profit on disposal of property, plant and equipment	(1,083)	-
Operating leases	110,000	105,000
Foreign exchange (gain)/loss	(73,387)	186,699
Consumables and raw materials used	505,216	307,902
Telecommunications	66,569	102,363
Small equipment purchases	126,937	145,965
Travel	259,514	278,431
Maintenance costs	485,543	803,743
Advertising	226,380	183,323
Bad debt expense reversal	(3,851)	(47,394)
Other expenses	<u>63,204</u>	<u>48,031</u>
Total cost of sales, distribution costs and administrative expenses	<u>8,685,031</u>	<u>8,567,149</u>

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

6 Auditor's remuneration

Fees payable to Grant Thornton UK LLP and its associates in respect of both audit and non-audit services are as follows:

	2018 £	2017 £
Audit services – statutory audit of the parent and consolidated accounts	7,885	5,402
Audit services – statutory audit subsidiaries of the Group	5,769	13,849
All other non-audit services	5,642	10,780
	<u>19,296</u>	<u>30,031</u>

7 Employees and directors

The average number of persons (including directors) employed by the Group during the year was:

	2018 No	2017 No
Professional services	20	19
Maintenance	23	22
Research and development	29	21
Sales and marketing	15	13
General and administration	13	13
	<u>100</u>	<u>87</u>

The employee costs for the persons above:

	2018 £	2017 £
Wages and salaries	6,116,278	5,178,257
Social security costs	613,486	611,308
Defined contribution costs	137,989	134,275
	<u>6,867,753</u>	<u>5,923,840</u>

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

7 Employees and directors (continued)

Directors

In respect of the Directors of Gladstone Limited:

	2018 £	2017 £
Emoluments	82,634	68,174
Company contributions to money purchase pension schemes	1,770	2,000
	<u>84,404</u>	<u>70,174</u>
	2018 No	2017 No
The number of Directors to whom retirement benefits are accruing under money purchase schemes was:	<u>1</u>	<u>1</u>

8 Finance income

	2018 £	2017 £
Other interest receivable	<u>725</u>	<u>350</u>

9 Finance costs

	2018 £	2017 £
Interest on bank overdrafts and loans	<u>15</u>	<u>1,173</u>

10 Income tax expense

	2018 £	2017 £
Current tax		
UK Corporation tax on profits of year	449,466	174,746
Adjustments recognised in the year for current tax of prior periods	111,454	(131,592)
Total current tax	<u>560,920</u>	<u>43,154</u>
Deferred tax		
Origination and reversal of timing difference	61,688	(32,863)
Total income taxes	<u>622,608</u>	<u>10,291</u>

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

10 Income tax expense (continued)

Tax expense reconciliation

	2018 £	2017 £
Profit before income tax	3,230,925	2,103,854
Corporation tax charge thereon at 19% (2017 – 19.25%)	613,876	385,675
Effects of:		
Expenses not deductible for tax purposes	-	(163,857)
Utilisation of tax losses not previously recognised	9,258	-
Expenses that are not deductible, other than goodwill and impairment	20,110	4,185,770
Non taxable income	(415,997)	(4,145,049)
Capital allowances for year in excess of depreciation	(8,060)	(69,317)
Adjustments to tax in respect of prior periods	234,097	(112,005)
Adjustment in research and development tax credit leading to a decrease in the tax charge	-	(24,225)
Change in unrecognised deferred tax	11,311	-
Higher rate taxes on overseas earnings	11,319	-
Double tax relief	-	(41,608)
Other timing differences	155,459	(1,893)
Other differences	(8,765)	(3,200)
	622,608	10,291

The effective tax rate for 2018 was 19% (19.25% in 2017). The theoretical income taxes are determined by applying the domestic corporate tax rate in The United Kingdom, where the parent is domiciled. The effective tax rate is calculated including the share of post-tax results of associates. This calculation is consistent with that used in prior years.

In the prior year, the Finance Act 2016 was enacted so as to reduce the UK corporation tax rate to 17% for the financial year 2020. As a result of previous legislation affecting the UK tax rate, the main rate of corporation tax reduced from 20% to 19% with effect from 1 April 2017. These rates have been used to measure deferred tax assets and liabilities where applicable.

11 Dividends on equity shares

	2018 £	2017 £
Interim dividends paid of £0.04 per share (2017 - £0.04 per share)	2,365,000	2,150,000
	2,365,000	2,150,000

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

12 Property, plant and equipment

	Freehold land and buildings £	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Total £
Cost					
As at 1 January 2017	245,200	78,337	125,354	250,409	699,300
Additions	-	270,671	97,844	-	368,515
As at 1 January 2018	245,200	349,008	223,198	250,409	1,067,815
Additions	-	2,945	12,642	-	15,587
As at 31 December 2018	245,200	351,953	235,840	250,409	1,083,402
Depreciation					
As at 1 January 2017	19,616	76,607	125,354	229,388	450,965
Charge for the period	4,904	7,088	5,866	9,807	27,665
As at 1 January 2018	24,520	83,695	131,220	239,195	478,630
Charge for the period	4,904	18,942	22,064	6,326	52,236
As at 31 December 2018	29,424	102,637	153,284	255,232	530,866
Net book value					
As at 31 December 2018	215,776	249,316	82,556	4,888	552,536
As at 31 December 2017	220,680	265,313	91,978	11,214	589,185
As at 1 January 2017	225,584	1,730	-	21,021	248,335

13 Goodwill

	Goodwill £
As at 1 January 2017, 1 January 2018 and 31 December 2018	1,727,971
Impairment	
As at 1 January 2017, 1 January 2018 and 31 December 2018	-
Carrying amount:	
As at 31 December 2018	1,727,971
As at 31 December 2017	1,727,971
As at 1 January 2017	1,727,971

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

14 Other intangible assets	Intellectual property	Customer relationships	Total £
Cost or valuation:			
As at 1 January 2017, 1 January 2018 and 31 December 2018	8,040,564	2,485,141	10,525,705
Amortisation and impairment:			
As at 1 January 2017	7,657,322	2,366,801	10,024,123
Amortisation charged for the year	383,241	118,340	501,581
As at 1 January 2018 and 31 December 2018	8,040,563	2,485,141	10,525,704
Carrying amount:			
As at 31 December 2018	1	-	1
As at 31 December 2017	1	-	1
As at 1 January 2017	383,242	118,340	501,582

15 Inventories	2018 £	2017 £	As at 1 January 2017 £
Finished goods and goods for resale	21,367	21,843	34,307
Work in progress	8,759	-	-
	<u>30,126</u>	<u>21,843</u>	<u>34,307</u>

16 Trade and other receivables	2018 £	2017 £	As at 1 January 2017 £
Current portion			
Trade receivables	1,320,655	1,685,874	1,229,134
Amounts due from fellow group undertakings	21,273,261	21,144,892	18,285,834
Prepayments and accrued income	395,756	214,356	172,035
Other receivables	3,146	14,641	4,866
	<u>22,992,818</u>	<u>23,059,763</u>	<u>19,691,869</u>

The amounts due from fellow group undertakings are unsecured and are repayable on demand.

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

17 Cash and cash equivalents			As at 1 January 2017 £
	2018 £	2017 £	
Current portion			
Cash in hand	49,585	142,459	496,677
Balance as stated in the statement of financial position at 31 December	49,585	142,459	496,677
Less bank overdrafts shown as liabilities in the statement of financial position	(166,963)	(121,317)	-
Balance as stated in the statement of cash flows at 31 December	(117,378)	21,142	496,677

18 Borrowings			As at 1 January 2017 £
	2018 £	2017 £	
Current portion			
Bank loans and overdrafts	166,963	121,317	-

The bank overdrafts are unsecured and repayable on demand

19 Trade and other payables			As at 1 January 2017 £
	2018 £	2017 £	
Current portion			
Trade payables	29,381	37,475	62,177
Amounts due to fellow group undertakings	12,151,561	13,659,435	10,367,303
Other tax and social security	277,510	204,136	243,712
Accrued liabilities	1,553,591	1,135,143	950,922
Other payables	97,009	118,747	96,687
	14,109,052	15,154,936	11,720,801

The amounts due to fellow group undertakings are unsecured and are repayable on demand.

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

20 Financial instruments and financial risks

Financial instruments

The Group's principal financial instruments, from which financial risk arises, comprise of the following:

- Trade and other receivables
- Cash and cash equivalents
- Borrowings
- Trade and other payables

The Group does not issue or use financial instruments of a speculative nature.

The totals for each category of financial instruments, measured in accordance with IFRS 9 as detailed in the accounting policies to these consolidated financial statements, are as follows:

Loans and receivables held at amortised cost			
	2018	2017	As at 1 January 2017
	£	£	£
Current assets			
Trade and other receivables	22,597,062	22,845,407	19,519,834
Cash and cash equivalents	49,585	142,459	496,677
Total financial assets	22,646,647	22,987,866	20,016,511

Financial liabilities held at amortised cost			
	2018	2017	As at 1 January 2017
	£	£	£
Current liabilities			
Borrowings	166,963	121,317	-
Trade and other payables	13,831,542	14,950,800	11,477,089
Total financial liabilities	13,998,505	15,072,117	11,477,089

Financial risks

Overview

The Group is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Group's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Group is exposed are described below.

Market risk

The Group operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates which impact sales and purchases that are denominated in a currency other than the respective functional currencies of certain of its subsidiaries. The Group currently does not typically use derivative instruments to hedge its exposure to those risks. Most of the Group's businesses are organised geographically so that many of its expenses are incurred in the same currency as its revenues thus mitigating some of its exposure to currency fluctuations.

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

20 Financial instruments and financial risks (continued)

Liquidity risk

Liquidity risk is the risk that the Group is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Group manages liquidity risk through the management of its capital structure and financial leverage. One of the Groups's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows from operations.

The majority of the Group's financial liabilities recorded in accounts payable and accrued liabilities are due within 60 days.

Given the Group's available liquid resources and credit capacity as compared to the timing of the payments of liabilities, the Group assesses its liquidity risk to be low.

Credit risk

Credit risk represents the financial loss that the Group would experience if a counterparty to a financial instrument, in which the Group has an amount owing from the counterparty failed to meet its obligations in accordance with the terms and conditions of its contracts with the Group. The carrying amount of the Group's financial assets, including receivables from customers, represents the Group's maximum credit exposure.

The majority of the accounts receivable balance relates to maintenance invoices to customers that have a history of payment.

The maximum exposure to credit risk for accounts receivable at the reporting date was:

	2018	2017	As at 1 January 2017
	£	£	£
Current assets			
Trade receivables	1,320,655	1,685,874	1,229,134

There is no concentration of credit risk because of the Group's diverse and disparate number of customers with individual receivables that are not significant to the Group on a consolidated basis. In addition, the Group typically requires up front deposits from customers to protect against credit risk.

The Group manages credit risk related to cash by maintaining the majority of the Group's bank accounts with Schedule 1 banks.

Fair values versus carrying amounts

The carrying values of cash, trade receivables, trade payables, accrued liabilities, borrowings and other payables, approximate their fair values due to the short-term nature of these instruments. Bank debt is subject to market interest rates.

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

21 Deferred tax

The movement on the deferred income tax account is as shown below:

	Assets £
As at 1 January 2017	44,952
Credit to statement of comprehensive income	32,863
As at 31 December 2017	77,815
Debit to statement of comprehensive income	(47,665)
As at 31 December 2018	30,150

The deferred tax asset is made up as follows:

	2018 £	2017 £	As at 1 January 2017 £
Decelerated capital allowances	18,774	43,240	40,203
Retirement benefit obligations	2,118	2,082	4,749
Tax losses carried forward	9,258	32,493	-
As at 31 December 2018	30,150	77,815	44,952

22 Share capital and reserves

Share capital

	2018 No	2017 No	As at 1 January 2017 No
Allotted, issued and fully paid			
Ordinary shares of £0.01 each	59,650,933	59,650,933	59,650,933
Non – voting deferred shares of £0.09 each	41,116,996	41,116,996	41,116,996
	2018 £	2017 £	As at 1 January 2017 £
Allotted, issued and fully paid			
Ordinary shares of £0.01 each	596,509	596,509	596,509
Non – voting deferred shares of £0.09 each	3,700,530	3,700,530	3,700,530
	4,297,039	4,297,039	4,297,039

The Ordinary shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

Non – voting deferred shares have attached to them no voting rights and have no rights to dividend and capital distribution (including on winding up) until after Ordinary shares; they do not confer any rights of redemption.

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

22 Share capital and reserves (continued)

Reserves

Share premium account

The share premium account includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Other reserves

Other reserves represent a special reserve that arose as a result of the de-merge of Ge.World UK and its subsidiaries in 2001.

Retained earnings

Retained earnings include cumulative profit and loss net of distributions to owners.

23 Capital risk management

The Group's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to provide returns to its shareholders. The Group manages its capital with the objective of ensuring that there are adequate capital resources while maximising the return to shareholders.

The Board of Directors determine if and when dividends should be declared and paid based on all relevant circumstances, including the desirability of financing further growth of the Group and its financial position at the relevant time.

The Group makes adjustments to its capital structure in light of general economic conditions, the risk characteristics of the underlying assets and the Group's working capital requirements. In order to maintain or adjust its capital structure, the Group, upon approval from its Board of Directors, may increase or decrease dividends, take out a line of credit or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions not in the ordinary course of business, as well as significant acquisitions and other major investments above pre-determined quantitative thresholds.

24 Notes to the statement of cash flows

Reconciliation of profit to cash flows generated from operations

	2018 £	2017 £
Profit before tax	3,230,925	2,103,854
Adjustments for:		
Finance costs	15	1,173
Finance income	(725)	(350)
Depreciation of property, plant and equipment	52,236	27,665
Amortisation of intangible assets	-	501,581
(Increase)/decrease in inventories	(8,283)	12,464
Increase in receivables	(49,313)	(3,367,894)
(Decrease)/increase in payables	(744,330)	3,164,204
Cash generated from operations	2,480,525	2,442,697

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

25 Contingent liabilities

In the event that bank indebtedness arises in the ultimate parent undertaking, Constellation Software Inc., it is secured by means of an unlimited guarantee and debenture over the assets of the Group and Company.

26 Commitments under non-cancellable operating leases

The total future minimum lease payments under non-cancellable operating lease agreements are as follows:

	2018 £	2017 £
Amounts due:		
Within one year	110,000	170,771
Between one and five years	450,000	529,696
After five years	990,000	650,000
	<u>1,550,000</u>	<u>1,350,467</u>

27 Retirement benefits

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost represents contributions payable by the Group to the fund and amounted to £122,084 (2017: £134,275). Contributions totalling £nil (2017: £28,604) were payable to the fund at the year end.

28 Related party transactions

During the year the Group paid £79,498 (2017: £103,276) to Arrow Business Communications Ltd, a company of which some shares are owned by the wife of a Director. £288 (2017: £nil) was owing from Arrow Business Communications Ltd as at the year end.

During the year the Group paid £978 (2017: £2,501) to Neterian Limited, a company partly owned by a Director. £91 was owing from Neterian Limited as at the year end (£22 owing to Neterian as at the year ended 2017).

Key management compensation

	2018 £	2017 £
Wages, salaries and short-term benefits	105,437	83,733
Post-employment benefits	881	1,247
Share-based payments	19,242	13,675
	<u>125,560</u>	<u>98,655</u>

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

29 Ultimate parent company

The immediate parent undertaking is Constellation Software UK Holdco Ltd, a company incorporated in England and Wales.

Constellation Software Inc. heads the largest group which prepares consolidated financial statements in which the results of the Company and the Group are included. The financial statements of Constellation Software Inc. are available to the public and may be obtained from Gary Jonas computing Ltd, 8133 Warden Ave, Suite 400, Markham, Ontario, Canada, L6G 1B3.

GLADSTONE LIMITED

Company Registration No. 03327360

PARENT COMPANY STATEMENT OF FINANCIAL POSITION**AS AT 31 DECEMBER 2018**

	Notes	2018 £	2017 £
Non-current assets			
Property, plant and equipment	2	319,644	353,632
Other intangible assets	3	1	1
Investments in subsidiaries	4	11,686,613	11,686,613
		<u>12,006,258</u>	<u>12,040,246</u>
Current assets			
Trade and other receivables	6	8,935,250	8,378,620
Cash and cash equivalents	7	14,671	121,735
		<u>8,949,921</u>	<u>8,500,355</u>
Trade and other payables: amounts falling due within one year	8	<u>(4,978,341)</u>	<u>(4,150,902)</u>
Net current assets		<u>3,971,580</u>	<u>4,349,453</u>
Total assets less current liabilities		<u>15,977,838</u>	<u>16,389,699</u>
Provisions for liabilities			
Deferred tax	9	<u>(23,645)</u>	<u>-</u>
Net assets		<u>15,954,193</u>	<u>16,389,699</u>
EQUITY			
Called-up share capital	10	4,297,039	4,297,039
Share premium account		1,373,026	1,373,026
Other reserves		3,685,258	3,685,258
Retained earnings		6,598,870	7,034,376
Total equity		<u>15,954,193</u>	<u>16,389,699</u>

As permitted by s408 Companies Act 2006, the company has not presented its own income statement, nor a statement of comprehensive income, and related notes. The Company's profit for the year was £1,929,494 (2017: £3,866,458).

The financial statements on pages 43 to 54 were approved by the Board of Directors and authorised for issue on 9/12/19 and are signed on its behalf by:



S R Saklad
Director

The accompanying accounting policies and notes form an integral part of the financial statements.

GLADSTONE LIMITED

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital £	Share premium £	Other reserves £	Retained earnings £	Total £
Balance at 1 January 2017	4,297,039	1,373,026	3,685,258	5,317,918	14,673,241
Profit and total comprehensive income for the year	-	-	-	3,866,458	3,866,458
Transactions with owners in their capacity as owners: Dividends	-	-	-	(2,150,000)	(2,150,000)
Total transactions with owners in their capacity as owners	-	-	-	(2,150,000)	(2,150,000)
Balance at 31 December 2017	4,297,039	1,373,026	3,685,258	7,034,376	16,389,699
Profit and total comprehensive income for the year	-	-	-	1,929,494	1,929,494
Transactions with owners in their capacity as owners: Dividends	-	-	-	(2,365,000)	(2,365,000)
Balance at 31 December 2018	4,297,039	1,373,026	3,685,258	6,598,870	15,954,193

The accompanying accounting policies and notes form an integral part of the financial statements.

GLADSTONE LIMITED

PARENT COMPANY ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 DECEMBER 2018

General information

Gladstone Limited is a limited liability company incorporated in the United Kingdom. Its registered office is Gladstone House, Hithercroft Road, Wallingford, Oxfordshire, OX10 9BT.

The principal activity of the Company during the year was that of a holding company. The Company also owns intellectual property associated with the Plus2 software and receives realty income for use of this product.

Basis of preparation

The parent company financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company accounting policies (see note 1).

The following principal accounting policies have been applied:

Going concern

The financial statements have been prepared on the going concern basis which assumes that the Company will continue in operational existence for the foreseeable future. The directors have reviewed the working capital requirements of the group for a period of at least 12 months from the anticipated date of signing of the financial statements and are satisfied that the company will be able to meet its liabilities as they fall due.

Financial reporting standard 101 -reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of IAS 16 Property, Plant and Equipment to present a comparative reconciliation
- the requirements in IAS 24, 'Related party disclosures' (key management compensation)
- the requirements of paragraphs 134-136 of IAS 1 Presentation of Financial Statements for capital management disclosures
- the effect of future accounting standards not adopted
- presentation of comparative recognition of the number of shares outstanding at the beginning and end of the period

GLADSTONE LIMITED

PARENT COMPANY ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Impact of new international reporting standards, amendments and interpretations

IFRS 9

There have been no material impacts on the Company's financial statements as a result of adopting IFRS 9 from January 1, 2018.

IFRS 15

From January 1, 2018, the Company has applied IFRS 15 using the cumulative effect method. There have been no material impacts on the Company's financial statements as a result of adopting IFRS 15 from January 1, 2018.

Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

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

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

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive Income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive Income. within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other operating income'.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Royalty and rental income is recognised on an accruals basis in accordance with the substance of the relevant underlying agreements.

Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the statement of comprehensive income on a straight line basis over the lease term.

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

GLADSTONE LIMITED

PARENT COMPANY ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Interest income

Interest income is recognised in the statement of comprehensive income using the effective interest method.

Finance costs

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

Current and deferred taxation

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

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

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

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

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

Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

GLADSTONE LIMITED

PARENT COMPANY ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Property, plant and equipment

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

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

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

Depreciation is provided on the following basis:

Office equipment	- 20%
Leasehold improvements	- 7%

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive Income.

Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Receivables

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

Cash and cash equivalents

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

Payables

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

GLADSTONE LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements required management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from the estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Estimates are based on historical experience and other assumptions that are considered reasonable in the circumstances. The actual amount of values may vary in certain instances from the assumption and estimates made. Changes will be recorded, with corresponding effect in the statement of comprehensive income, when, and if, better information is obtained.

Information about assumptions and estimation uncertainties that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below:

The recognition of deferred tax assets is based on forecasts of future taxable profit. The measurement of future profit for the purposes of determining whether or not to recognise deferred tax assets depends on many factors, including the Company's ability to generate such profits and the implementation of effective tax planning strategies. The occurrence or non-occurrence of such events in the future may lead to significant changes to the measurement of deferred tax assets.

In recognising provisions, the Company evaluates the extent to which it is possible that it has incurred a legal or constructive obligation in respect of past events and the probability that there will be an outflow of benefits as a result. The judgements used to recognise provisions are based on currently known factors which may vary over time, resulting in changes in the measurement of recorded amounts as compared to initial estimates.

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 2 for the carrying amount of the property plant and equipment the accounting policies for the useful economic lives for each class of assets.

The Company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the aging profile of receivables and historical experience. See note 6 for the net carrying amount of the receivables.

The Company also makes an estimate of the recoverable value of investments. When assessing impairment of investments, management review discounted future cashflows forecasts along with the current financial position and industry knowledge.

GLADSTONE LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

2 Property, plant and equipment

	Leasehold improvement £	Office equipment £	Total £
Cost			
As at 1 January 2018	270,671	130,569	401,240
Additions	2,945	-	2,945
As at 31 December 2018	273,616	130,569	404,185
Depreciation			
As at 1 January 2017	6,290	41,318	47,608
Charge for the period	18,143	18,790	36,933
As at 31 December 2018	24,433	60,108	84,541
Net book value			
As at 31 December 2018	249,183	70,461	319,644
As at 31 December 2017	264,381	89,251	353,632

3 Other intangible assets

	Intellectual property £
Cost	
As at 1 January 2018	1
As at 31 December 2018	1
Net book value	
As at 31 December 2018	1
As at 31 December 2017	1

GLADSTONE LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

4 Investments

	Investments in subsidiary entities £
Cost	
As at 1 January 2018	24,930,937
As at 31 December 2018	24,930,937
Impairment	
As at 1 January 2018	13,244,324
As at 31 December 2018	13,244,324
Net book value	
As at 31 December 2018	11,686,613
As at 31 December 2017	11,686,613

5 Subsidiaries

All companies listed below are owned by the Company and all interests are in the ordinary share capital, except where otherwise indicated. All subsidiaries have been consolidated.

The Company holds a majority of the voting rights of the following undertakings:

Entity	Country of incorporation	Interest	Holding	Address (see below for full)
Gladstone MRM Limited	UK	100%	Direct	Gladstone House
Gladstone Education Limited	UK	100%	Direct	Gladstone House

Address	Full address
Gladstone House	Gladstone House, Hithercroft Road, Wallingford, Oxfordshire, England, OX10 9BT

Gladstone MRM Limited, company number 01548633 (England & Wales), is exempt from the requirements under Companies Act 2006 relating to the audit of financial statements under 479A of the Companies Act 2006.

Gladstone Education Limited, company number 04558855 (England & Wales), is exempt from the requirements under Companies Act 2006 relating to the audit of financial statements under 479A of the Companies Act 2006.

GLADSTONE LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

6	Trade and other receivables	2018 £	2017 £
	Amounts due from fellow group undertakings	8,858,746	8,256,918
	Prepayments and accrued income	36,209	26,249
	Other receivables	40,295	71,203
	Deferred taxation	-	24,250
		<u>8,935,250</u>	<u>8,378,620</u>

The amounts due from fellow group undertakings are unsecured and are repayable on demand

7	Cash and cash equivalents	2018 £	2017 £
	Cash at bank and in hand	<u>14,671</u>	<u>121,735</u>

8	Trade and other payables: amounts falling due within one year	2018 £	2017 £
	Bank overdrafts	166,963	-
	Trade payables	1,541	33,543
	Amounts due to fellow group undertakings	4,197,546	4,048,589
	Other tax and social security	29,717	7,165
	Other payables	53,620	15,475
	Accrued liabilities	528,954	46,130
		<u>4,978,341</u>	<u>4,150,902</u>

Bank overdrafts with the Bank of Montreal are secured by way of first fixed and floating charge on all existing and future assets owned by the Company.

The amounts due from fellow group undertakings are unsecured and are repayable on demand

GLADSTONE LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

9 Deferred tax

The movement on the deferred income tax account is as shown below:

	(Liability)/ asset £
As at 1 January 2018	24,250
Debit to statement of comprehensive income	(47,895)
As at 31 December 2018	<u>(23,645)</u>

The deferred tax (liability)/asset is made up as follows:

	2018 £	2017 £
Decelerated capital allowances	(33,438)	(8,243)
Retirement benefit obligations	535	-
Tax losses carried forward	9,258	32,493
As at 31 December 2018	<u>(23,645)</u>	<u>24,250</u>

10 Share capital

	2018 £	2017 £
Allotted, called up and fully paid		
59,650,933 Ordinary shares of £0.01 each	596,509	596,509
41,116,996 Non – Voting deferred shares of £0.09 each	3,700,530	3,700,530
	<u>4,297,039</u>	<u>4,297,039</u>

The Ordinary shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

Non – voting deferred shares have attached to them no voting rights and have no rights to dividend and capital distribution (including on winding up) until after Ordinary shares; they do not confer any rights of redemption.

11 Reserves

Share premium account

Includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from the share premium.

Retained earnings

Includes all current and prior period retained profits and losses.

Other reserves

The special reserve arose as a result of the de-merger of Ge. World UK and its subsidiaries in 2001.

GLADSTONE LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

12 Contingent liabilities

In the event that bank indebtedness arises in the ultimate parent undertaking, Constellation Software Inc., it is secured by means of an unlimited guarantee and debenture over the assets of the Company and other group undertakings.

13 Commitments under non-cancellable operating leases

The total future minimum lease payments under non-cancellable operating lease agreements are as follows:

	2018 £	2017 £
Amounts due:		
Within one year	110,000	110,000
Between one and five years	450,000	480,548
After five years	990,000	650,000
	<u>1,550,000</u>	<u>1,240,548</u>

14 Related party transactions

As permitted by FRS 101, related party transactions with wholly owned members of Constellation Software Inc. have not been disclosed.

15 Controlling party

The immediate parent company is Constellation Software UK Holdco Ltd, a company incorporated in England and Wales.

The largest and smallest group in which the results are consolidated is that headed by Constellation Software Inc. Constellation Software Inc. is also the ultimate controlling part of the Company. The consolidated accounts of Constellation Software Inc. are available to the public and may be obtained from Gary Jonas Computing Ltd, 8133 Warden Ave, Suite 400, Markham, Ontario, Canada, L6G 1R3.