

Company Registration No. 03327360

Gladstone Limited

Annual Report and Consolidated Financial Statements

For the year ended 31 December 2019



GLADSTONE LIMITED

COMPANY INFORMATION

Directors

B A 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
Seacourt Tower
Botley
Oxford
OX2 0JJ

GLADSTONE LIMITED**CONTENTS**

	Page(s)
Strategic report	1
Directors' report	3
Directors' responsibilities statement	5
Independent auditor's report	6
Consolidated statement of comprehensive income	10
Consolidated statement of financial position	11
Consolidated statement of changes in equity	13
Consolidated statement of cash flows	14
Consolidated accounting policies	15
Notes to the consolidated financial statements	27
Parent company statement of financial position	47
Parent company statement of changes in equity	48
Parent company accounting policies	49
Notes to the parent company financial statements	58

GLADSTONE LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

Introduction

The Directors present their Strategic Report and Financial Statements for the year ended 31 December 2019.

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 intermediate parent, Gary Jonas Computing Ltd ("Jonas"), and its immediate parent company, Constellation Software UK Holdco Ltd. 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, Wine POS, Marina, Manufacturing, Managed Print Services, Legal, Email Marketing, Elevator Maintenance, Early Intervention, Medical Technology and Retail industries.

Principal risks and uncertainties

The impact of COVID-19 pandemic on the sector has seen an increase in the general public being active away from a traditional health clubs or leisure centres. This creates both an opportunity and a threat to the sector, with the need to diversifying the traditional bricks and mortar model of the industry to take advantage of the hybrid model for in facility and home workouts.

The Home workout revolution also creates new competitors in the market for members with online and app providers providing software to help the general public be active, however the view is that this new world of home exercising will not reduce the penetration the sector has, but provides an opportunity for more members of the general public to be active.

The continued consolidation of the sector is providing both opportunities to grow as existing clients extend their portfolio and risks 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"), being the year on year movement in gross profit and Profitability, being the profit before tax for the year.

GLADSTONE LIMITED
STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018	2017
Growth/(decline) in gross profit	(1.5%)	11.9%	(1.5%)
Profit before tax	£1,174,734	£3,230,925	£2,103,854

The decline in gross profit (NRG) in 2019 relates to the move away from the traditional licensing model, with the market preference for subscription contracts which offer the additional service of hosting to their customer base, hosting facilities are outsourced at an additional cost.

Profit before tax has also declined this year due to the development and growth of the central UK team as Jonas UK strengthens and gains more autonomy for the future.

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

To continue to diversify from the traditional bricks and mortar model of the industry and to take advantage of the hybrid model for in facility and home workouts.

This report was approved by the board on 10/5/2021 and signed on its behalf.



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S R Saklad
 Director

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GLADSTONE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present their report and financial statements for the year ended 31 December 2019.

Principal activities

The principal activity of the Company was that of a central services company for Jonas UK. This is a change in principal activity from the prior year which was that of a holding company. The principal activity of the Group was the provision of computer software and consultancy services in both the current and prior years.

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	(appointed 1 January 2019)
J R MacKinnon	(appointed 1 January 2019)
S R Saklad	
D P Boxall	
R Clancy	

Qualifying third party indemnity provisions

The company and its subsidiaries have made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

Results and dividends

The results for the year are set out on page 10.

Ordinary dividends of £2,445,000 (2018 - £2,365,000) were paid. The directors do not recommend payment of a final dividend (2018 - £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.

The Group's forecasts for the period of 12 months following the approval of the financial statements has been reviewed, and accordingly the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

Since the year end date, the COVID-19 virus has spread around the world and many governments, including that of the UK, have introduced strict measures to limit social contact. Leisure facilities have been closed for a number of months during the first half of 2020, and again, in the fourth quarter 2020 and the beginning of 2021, as part of these measures.

Key concerns at the beginning of the Pandemic were in relation to reduction in ad hoc revenue, renewal of maintenance contracts and also cashflow.

The 2020 revenue and EBITA has not been as negatively affected as first thought, with actuals comparable to the forecasts as at the end of 2019. Net Revenue totalled £9.7m and EBITA totalled £2.2m, compared to forecasted Net Revenue of £10m and EBITA of £2m being forecasted for 2020 as at December 2019, the improvement in EBITA is mainly due to the reduction in forecasted overheads

GLADSTONE LIMITED**DIRECTORS' REPORT (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019**

for the central service teams within the Parent Company. Forecasts have been built on a detailed bottom up approach; revenue based on pipe-line, contracts and customer and market knowledge, and costs based on historic data, future plans and knowledge of the industry.

The Group suffered from a reduction in cashflow for the first half of 2020. Due to this issue, more focus and better cashflow management has taken place and the government programmes to defer VAT and Furlough employees have been taken up. In addition to this, Gladstone had support from Jonas and the wider group to help fund its payroll commitments. Once the Leisure Facilities re-opened the Group saw a significant increase in cash coming in for August and to date, despite the additional lockdowns. The Group are still taking advantage of the furlough scheme, with more employees using the flexi furlough than in the first lockdown, this is due to operations being busier. Operations are busier than in the first lockdown due to customers using the lockdown period to focus on progressing their own projects, and also the delivery of new product lines launched in the first lockdown.

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.

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



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S R Saklad

Director

10/5/2021
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GLADSTONE LIMITED

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors are responsible for preparing the Strategic Report, Directors' Report, the consolidated financial statements and Company 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 and Company 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 (CONTINUED)

Opinion

We have audited the financial statements of Gladstone Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019, 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 the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

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 2019 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 United Kingdom Generally Accepted Accounting Practice; 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

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

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.

In our evaluation of the directors' conclusions, we considered the risks associated with the Group's and parent Company's business, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the Group's and parent Company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and parent Company will continue in operation.

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.

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

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.

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

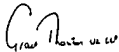
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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.

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

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.



Amanda James BFP ACA FCCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford
Date: 10/5/2021

GLADSTONE LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	2019 £	2018 £
Revenue	3	11,902,217	11,915,246
Cost of sales	4	(323,671)	(194,050)
Gross profit		11,578,546	11,721,196
Administrative expenses	4	(11,896,276)	(8,490,981)
Other operating income		1,521,637	-
Operating profit		1,203,907	3,230,215
Finance income	7	641	725
Finance costs	8	(29,814)	(15)
Profit before tax		1,174,734	3,230,925
Income tax expense	9	(437,842)	(622,608)
Profit for the year		736,892	2,608,317
Other comprehensive income		-	-
Total comprehensive income for the year		736,892	2,608,317

The accompanying accounting policies and notes on pages 15 to 46 form an integral part of the financial statements.

GLADSTONE LIMITED**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****FOR THE YEAR ENDED 31 DECEMBER 2019**

		2019	2018
	Notes	£	As restated £
ASSETS			
Non-current assets			
Property, plant and equipment	11	1,960,031	552,536
Goodwill	12	1,487,492	1,727,971
Other intangible assets	13	-	1
Deferred tax assets		5,421	-
Contract costs	14	37,285	36,989
Total non-current assets		<u>3,490,229</u>	<u>2,317,497</u>
Current assets			
Inventories	15	20,921	30,126
Contract costs	14	5,400	5,400
Contract assets		8,759	9,986
Trade and other receivables	16	21,948,036	22,992,818
Deferred tax assets		-	30,150
Cash and cash equivalents	17	764,370	49,585
Total current assets		<u>22,747,486</u>	<u>23,118,065</u>
Total assets		<u><u>26,237,715</u></u>	<u><u>25,435,562</u></u>
LIABILITIES AND EQUITY			
Non-current liabilities			
Deferred revenue		117,547	52,938
Lease liabilities	18	1,359,783	-
Current liabilities			
Borrowings	19	-	166,963
Trade and other payables	20	14,879,954	14,109,052
Current deferred tax liability		32,652	-
Current tax liabilities		-	404,451
Deferred revenue		3,211,437	2,465,833
Provisions		21,312	-
Lease liabilities	18	86,813	-
Total liabilities		<u>19,709,498</u>	<u>17,199,237</u>
Equity			
Called-up share capital	23	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		(2,827,106)	(1,118,998)
Total liabilities and equity		<u><u>26,237,715</u></u>	<u><u>25,435,562</u></u>

GLADSTONE LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2019

The financial statements on pages 10 to 46 were approved by the Board of Directors and authorised for issue on and are signed on its behalf by:



S R Saklad
Director

The accompanying accounting policies and notes on pages 15 to 46 form an integral part of the financial statements.

GLADSTONE LIMITED**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	Share capital £	Share premium £	Other reserves £	Retained earnings £	Total £
Balance at 1 January 2018		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	10	-	-	-	(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
Profit and total comprehensive income for the year		-	-	-	736,892	736,892
Transactions with owners in their capacity as owners:						
Dividends	10	-	-	-	(2,445,000)	(2,445,000)
Balance at 31 December 2019		4,297,039	1,373,026	3,685,258	(2,827,106)	6,528,217

The accompanying accounting policies and notes on pages 15 to 46 form an integral part of the financial statements.

GLADSTONE LIMITED**CONSOLIDATED STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	2019 £	2018 £
Operating activities			
Cash generated from operations	25	4,479,667	2,480,525
Interest paid	8	(29,814)	(15)
Income taxes paid		(826,174)	(239,168)
Net cash generated from operating activities		3,623,679	2,241,342
Investing activities			
Purchase of property, plant and equipment	11	(12,736)	(15,587)
Purchase of intangible assets	13	(177,149)	-
Interest received	7	641	725
Net cash used in investing activities		(189,244)	(14,862)
Financing activities			
Payment of obligations under finance leases		(107,687)	-
Dividends paid to owners of the parent company	10	(2,445,000)	(2,365,000)
Net used in financing activities		(2,552,687)	(2,365,000)
Net increase/(decrease) in cash and cash equivalents		881,748	(138,520)
Cash and cash equivalents at 1 January 2019		(117,378)	21,142
Cash and cash equivalents at 31 December 2019		764,370	(117,378)
Cash and cash equivalents per the statement of financial position	17	764,370	49,585
Less bank overdrafts	19	-	(166,963)
Cash and cash equivalents for the statement of cash flows purpose		764,370	(117,378)

The accompanying accounting policies and notes on pages 15 to 46 form an integral part of the financial statements.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 DECEMBER 2019

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 immediate parent company is Constellation Software UK Holdco Ltd, a company incorporated in England and Wales, which holds 100% of the ordinary shares of Gladstone Limited. The Group is ultimately controlled by Constellation Software Inc. incorporated and domiciled in Canada.

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.

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 and 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.

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.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

The Group's forecasts for the period of 12 months following the approval of the financial statements has been reviewed, and accordingly the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

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Key concerns at the beginning of the Pandemic were in relation to reduction in ad hoc revenue, renewal of maintenance contracts and also cashflow.

The 2020 revenue and EBITA has not been as negatively affected as first thought, with actuals comparable to the forecasts as at the end of 2019. Net Revenue totalled £9.7m and EBITA totalled £2.2m, compared to forecasted Net Revenue of £10m and EBITA of £2m being forecasted for 2020 as at December 2019, the improvement in EBITA is mainly due to the reduction in forecasted overheads for the central service teams within the Parent Company. Forecasts have been built on a detailed bottom up approach; revenue based on pipe-line, contracts and customer and market knowledge, and costs based on historic data, future plans and knowledge of the industry.

The Group suffered from a reduction in cashflow for the first half of 2020. Due to this issue, more focus and better cashflow management has taken place and the government programmes to defer VAT and Furlough employees have been taken up. In addition to this, Gladstone had support from Jonas and the wider group to help fund its payroll commitments. Once the Leisure Facilities re-opened the Group saw a significant increase in cash coming in for August and to date, despite the additional lockdowns. The Group are still taking advantage of the furlough scheme, with more employees using the flexi furlough than in the first lockdown, this is due to operations being busier. Operations are busier than in the first lockdown due to customers using the lockdown period to focus on progressing their own projects, and also the delivery of new product lines launched in the first lockdown.

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.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

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.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Revenue (continued)

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.

Professional services revenue including installation, implementation, training and customisation 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.

GLADSTONE LIMITED**CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019**

Property, plant and equipment (continued)

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 property	over the term of the lease
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.

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	5% straight line
Customer relationships	5-20% straight line

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

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) in 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.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Financial instruments (continued)

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.

Impairment of financial assets

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 trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on ECLs at each reporting date. The Group has established a provision matrix based on its historical credit loss experience, adjusted for forward-looking factors specific to the economic environment.

ECLs are provided based on an historic assessment of the past 12 months data at a customer level, resulting in a % allocated against certain aged debts. In addition to this assessment, all balances are reviewed on a line by line basis to ensure the relevant risk is provided for based on the current industry and operational knowledge.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the company may also consider a financial asset to be in default when internal or external information indicates the company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Impairment losses and any subsequent reversals of impairment losses are adjusted against the carrying amount of the receivable and 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 2019

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 2019

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..

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.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Current and deferred income tax (continued)

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.

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.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

To date, no material development expenditures have been capitalised.

New or amended Accounting Standards and Interpretations adopted

IFRS 16

During the year, the Group adopted IFRS 16 'Leases' (IFRS 16) for the first time. IFRS 16 replaces IAS 17 'Leases'. The Group previously split leases between 'finance leases' that transferred substantially all the risks and rewards incidental to ownership of the asset to the group, and 'operating leases'. The main change on application of IFRS 16 is the accounting for 'operating leases' where rentals payable (as adjusted for lease incentives) were previously expensed under IAS 17 on a straight-line basis over the lease term.

Under IFRS 16 a right-of-use asset and a lease liability are recognised for all leases except 'low-value' and 'short' term leases where lease payments are recognised on a straight-line basis over the lease term. The accounting for leases previously accounted for as finance leases under IAS 17 has not changed substantially, except that residual value guarantees are recognised under IFRS 16 at amounts expected to be payable rather than the maximum amount guaranteed, as required by IAS 17. At 31 December 2018 and 2019, the Group has no items of Property, plant and equipment leased under finance leases.

The Group has applied IFRS 16 retrospectively to all leases, but has elected to recognise the cumulative effect against opening reserves at 1 January 2019. Therefore, the comparative figures are as previously reported under IAS 17. The Group has applied this approach subject to the transition provisions set out below:

- A single discount rate has been applied to portfolios of leases with similar characteristics;
- The right-of-use assets have not been assessed for impairment at 1 January 2019, but have been reduced by the amount of any onerous lease provisions at that date; and

The amounts recognised for leases at 1 January 2019, have been measured as follows:

Operating leases under IAS 17, except 'low value' and 'short-term'

The lease liability is measured at the present value of the remaining lease payments at 1 January 2019, discounted at the lessee's incremental borrowing rate at that date.

GLADSTONE LIMITED

CONSOLIDATED ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

New or amended Accounting Standards and Interpretations adopted (continued)

Operating leases under IAS 17, except 'low value' and 'short-term' (continued)

The right-of-use asset is measured at the amount of the lease liability recognised in accordance with the measurement set out above, adjusted for accrued or prepaid operating lease payments at 1 January 2019.

'Low-value' leases

When the value of the underlying asset (if new) at 1 January 2019 is \$5,000 or less, the group has continued to recognise the lease payments associated with those leases on a straight-line basis over the lease term.

'Short-term' leases

Where the lease term is less than 12 months, the group has continued to recognise the lease payments associated with those leases on a straight-line basis over the lease term.

The following accounting policies were applied to leases in the year ended 31 December 2018:

Leases

Leases were classified as finance leases when the terms of the lease transferred substantially all the risks and rewards of ownership to the group. All other leases were classified as operating leases.

Rentals payable under operating leases were expensed on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease (such as up-front cash payments and reimbursement of relocation costs).

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

Key Sources of Estimation Uncertainty

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.

Impairment reviews

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 15 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.

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.

Critical Accounting Judgements

Deferred tax assets

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.

Useful economic lives

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 13 for the carrying amount of the other intangible assets and the accounting policies for the useful economic lives for each class of assets.

GLADSTONE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****Critical Accounting Judgements (continued)**

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 11 for the carrying amount of the property, plant and equipment and the accounting policies for the useful economic lives for each class of assets.

IFRS 16 – discount rate

The Group, as a lessee, measures the lease liability at the present value of the unpaid lease payments at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

Incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in similar economic environment.

The Group determines its incremental borrowing rate with reference to its existing and historical cost of borrowing adjusted for the term and security against such borrowing.

2 Changes in accounting policies**IFRS 16 Leases**

The Group mandatorily adopted IFRS 16 from 1 January 2019 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 Leases and related interpretations. On initial application, the Group has elected to record right-of-use assets based on the corresponding lease liability, adjusted by the amount of any prepaid or accrued lease payments. Right-of-use assets of £1,554,283 and lease obligations of £1,524,470 were recorded as of January 1, 2019.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 2%. The Group has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

The following table reconciles the Group's operating lease obligations at December 31, 2018, as previously disclosed in the Group's consolidated financial statements, to the lease obligations recognised on initial application of IFRS 16 at January 1, 2019.

	Operating lease commitments	Incremental borrowing rate	Discounted lease commitment	Lease liability recognised	Difference
	At 31 December 2018	at 1 January 2019	at 1 January 2019	at 1 January 2019	at 1 January 2019
	£		£	£	£
Property leases	1,550,000	2%	1,373,419	1,524,470	151,051
Total	1,550,000		1,373,419	1,524,470	151,051

The difference seen is due to a rent increase which was applied at the beginning of 2019 and not factored into the previous year calculations.

GLADSTONE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****3 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:

	2019 £	2018 £
<i>Major sources of revenue</i>		
License	374,008	387,043
Professional services	983,619	1,593,367
Hardware and other	916,114	881,849
Maintenance and other recurring	9,459,653	8,826,601
Royalties	168,823	226,286
	<u>11,902,217</u>	<u>11,915,246</u>
<i>Geographical regions</i>		
United Kingdom	10,917,614	10,996,825
Rest of Europe	553,754	377,263
Rest of the world	430,849	541,158
	<u>11,902,217</u>	<u>11,915,246</u>
<i>Timing of revenue recognition</i>		
Performance obligations satisfied:		
At a point in time	2,442,564	3,088,645
Over time	9,459,653	8,826,601
	<u>11,902,217</u>	<u>11,915,246</u>

The following tables provide information about unbilled revenue and deferred revenue

Unbilled revenue	£
As at 1 January 2019 as restated	9,986
Decrease from transfers to accounts receivable	(1,227)
At 31 December 2019	<u>8,759</u>

In the prior year £42,389 was previously shown in contract assets which are now within contract costs, these have been amended following changes to account mappings

Deferred revenue	£
At 1 January 2019	2,518,771
Decrease from revenue recognised that was included in the deferred revenue balance at the beginning of the period	(2,518,771)
Increase due to cash received, excluding amounts recognised as revenue during the period	3,328,984
At 31 December 2019	<u>3,328,984</u>
Deferred revenue classified as a current liability	3,211,437
Deferred revenue classified as a non-current liability	<u>117,547</u>

GLADSTONE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****3 Revenue (continued)**

The amount of revenue recognised in the year ended 31 December 2019 from performance obligations satisfied in previous periods was £nil (2018:£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 £3,054,433 as of 31 December 2019 (2018: £3,632,403), of which the Group expect to recognise an estimated 93% (2018: 97%) of the revenue over the next 12 months and the remainder thereafter.

4 Analysis of expenses by nature

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

	2019 £	2018 £
Employee remuneration (Note 6)	6,687,573	6,867,753
Intangible assets		
Amortisation of other intangible assets (Note 13)	177,150	-
Impairment of goodwill (Note 12)	240,479	-
Property, plant and equipment (Note 11)		
Depreciation of property, plant and equipment	159,524	52,236
Profit on disposal of property, plant and equipment	-	(1,083)
Leasing costs	27,496	110,000
Foreign exchange loss/(gain)	16,818	(73,387)
Consumables and raw materials used	579,658	505,216
Telecommunications	75,250	66,569
Small equipment purchases	121,764	126,937
Travel	298,902	259,514
Maintenance costs	1,723,702	485,543
Advertising	139,439	226,380
Bad debt expense/(reversal)	26,539	(3,851)
Management charges	769,400	-
Other expenses	1,176,253	63,204
Total cost of sales, distribution costs and administrative expenses	12,219,947	8,685,031

The Group has recognised income in relation Hub recharges of £1,521,637 (2018: £2,095,016). In 2019 these recharges have been recognised as other operating income within Statement of Comprehensive Income. In 2018 a proportion of these recharges were net against each of Maintenance costs (£915,877) and Other expenses (£1,179,139).

GLADSTONE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****5 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:

	2019 £	2018 £
Audit services – statutory audit of the parent and consolidated accounts	4,569	7,885
Audit services – statutory audit of the subsidiaries of the Group	15,000	5,769
Taxation compliance services	10,976	5,642
	<u>30,545</u>	<u>19,296</u>

6 Employees and directors

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

	2019 No	2018 No
Professional services	22	20
Maintenance	23	23
Research and development	30	29
Sales and marketing	15	15
General and administration	30	28
	<u>120</u>	<u>115</u>

The employee costs for the persons above:

	2019 £	2018 £
Wages and salaries	5,811,948	6,116,278
Social security costs	685,942	613,486
Defined contribution costs	189,683	137,989
	<u>6,687,573</u>	<u>6,867,753</u>

GLADSTONE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****6 Employees and directors (continued)****Directors**

In respect of the Directors of Gladstone Limited:

	2019 £	2018 £
Emoluments	819,190	82,634
Company contributions to money purchase pension schemes	11,812	1,770
	<u>831,002</u>	<u>84,404</u>

	2019 No	2018 No
The number of Directors to whom retirement benefits are accruing under money purchase schemes was:	<u>2</u>	<u>1</u>

Remuneration disclosed above includes the following amounts paid to the highest paid director.

	2019 £	2018 £
Emoluments	543,178	57,927
Company contributions to money purchase pension schemes	8,250	1,667
	<u>551,428</u>	<u>59,594</u>

A number of the directors are paid by other group entities for services provided to the wider group.

7 Finance income	2019 £	2018 £
Other interest receivable	<u>641</u>	<u>725</u>
8 Finance costs	2019 £	2018 £
Interest on bank overdrafts and loans	-	15
Interest on leases	<u>29,814</u>	<u>-</u>

GLADSTONE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019**

9	Income tax expense	2019 £	2018 £
	Current tax		
	UK Corporation tax on profits for the year	175,746	449,466
	Adjustments recognised in the year for current tax of prior periods	289,968	111,454
	Total current tax	465,714	560,920
	Deferred tax		
	Origination and reversal of timing difference	(27,872)	61,688
	Total income taxes	437,842	622,608
	Tax expense reconciliation		
		2019 £	2018 £
	Profit before income tax	1,174,734	3,230,925
	Corporation tax charge thereon at 19% (2018 – 19%)	223,200	613,876
	Effects of:		
	Expenses not deductible for tax purposes	163,100	-
	Utilisation of tax losses not previously recognised	-	9,258
	Expenses that are not deductible, other than goodwill and impairment	-	20,110
	Non taxable income		(415,997)
	Capital allowances for year in excess of depreciation	(4,369)	(8,060)
	Adjustments to tax in respect of prior periods	158,390	234,097
	Adjustment in research and development tax credit leading to a decrease in the tax charge	(40,333)	-
	Change in unrecognised deferred tax	-	11,311
	Higher rate taxes on overseas earnings	-	11,319
	Double tax relief	(8,441)	-
	Other timing differences	54,931	155,459
	Other differences	(108,636)	(8,765)
		437,842	622,608

The effective tax rate for 2019 was 19% (19% in 2018). 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 Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the year end date, its effects are not included in these financial statements

GLADSTONE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019**

10	Dividends on equity shares	2019 £	2018 £
	Interim dividends paid of £0.04 per share (2018 - £0.04 per share)	2,445,000	2,365,000
		<u>2,445,000</u>	<u>2,365,000</u>

GLADSTONE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****11 Property, plant and equipment**

	Freehold land and buildings £	Leasehold land and buildings £	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Total £
Cost						
As at 1 January 2019 – as previously reported	245,200	-	351,953	235,840	250,409	1,083,402
Additional 'right-of-use' assets on transition to IFRS16 (Note 18)	-	1,554,283	-	-	-	1,554,283
As at 1 January 2019 – as restated	245,200	1,554,283	351,953	235,840	250,409	2,637,685
Additions – owned assets	-	-	12,736	-	-	12,736
As at 31 December 2019	245,200	1,554,283	364,689	235,840	250,409	2,650,421
Depreciation						
As at 1 January 2019	29,424	-	102,637	153,284	245,521	530,866
Charge for the period	4,904	109,092	18,532	23,085	3,911	159,524
As at 31 December 2019	34,328	109,092	121,169	176,369	249,432	690,390
Net book value						
As at 31 December 2019	210,872	1,445,191	243,520	59,471	977	1,960,031
As at 31 December 2018	215,776	-	249,316	82,556	4,888	552,536
The depreciation charge for the period is recognised within administrative expenses in the Statement of Comprehensive Income.						
Carrying value of right-of-use assets						
As at 31 December 2019	-	1,445,191	-	-	-	1,445,191

GLADSTONE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019**

12 Goodwill	Goodwill £
As at 1 January 2019 and 31 December 2019	1,727,971
Impairment	
As at 1 January 2019	-
Goodwill impairment	240,479
As at 31 December 2019	240,479
Carrying amount:	
As at 31 December 2019	1,487,492
As at 31 December 2018	1,727,971

The remaining carrying amount of goodwill relates to Gladstone MRM Limited. Estimation of the value in use for goodwill is primarily based on future revenue and profitability forecasts over the following 5 years, which is re-assessed on a quarterly basis. The Company has a history of profitability and projections are based on a mature pipeline, 3-5 year contracts and historic data. There are no significant assumptions required for the review of this cash-generating unit.

13 Other intangible assets	Intellectual property £	Customer relationships £	Total £
Cost or valuation:			
As at 1 January 2019	8,040,564	2,485,141	10,525,705
Additions	177,149	-	177,149
As at 31 December 2019	8,217,713	2,485,141	10,702,854
Amortisation and impairment:			
As at 1 January 2019	8,040,563	2,485,141	10,525,704
Amortisation charged for the year	177,150	-	177,150
As at 31 December 2019	8,217,713	2,484,141	10,702,854
Carrying amount:			
As at 31 December 2019	-	-	-
As at 31 December 2018	1	-	1

The amortisation charge for the period is recognised within administrative expenses in the Statement of Comprehensive Income.

GLADSTONE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019**

14 Contract costs	2019	2018
	£	As restated £
Costs to obtain contracts		
Current	5,400	5,400
Non-current	37,285	36,989
Total	<u>42,685</u>	<u>42,389</u>

The group has capitalised and amortised incremental commission costs on a systematic basis, consistent with the pattern of transfer of the goods or services to which the commission relates as the group believes these costs are recoverable. The total capitalised commission costs as of 31 December 2019 is £236,244 (2018 - £224,457). The amount of amortisation expense for the year ended 31 December 2019 was £9,688 (2018 - £183,369) and there was no impairment loss in relation to the costs capitalised

15 Inventories	2019	2018
	£	£
Finished goods and goods for resale	20,921	21,367
Work in progress	-	8,759
	<u>20,921</u>	<u>30,126</u>

16 Trade and other receivables	2019	2018
	£	£
Current portion		
Trade receivables	1,054,070	1,320,655
Amounts due from fellow group undertakings	20,275,058	21,273,261
Corporation tax recoverable	41,264	-
Prepayments and accrued income	230,701	395,756
Other receivables	346,943	3,146
	<u>21,948,036</u>	<u>22,992,818</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 2019****17 Cash and cash equivalents**

	2019 £	2018 £
Cash in hand	764,370	49,585
Balance as stated in the statement of financial position at 31 December	764,370	49,585
Less bank overdrafts shown as liabilities in the statement of financial position	-	(166,963)
Balance as stated in the statement of cash flows at 31 December	764,370	(117,378)

18 Leases

	2019 £
Right-of-use assets	
At 1 January 2019	1,554,283
Depreciation	(109,092)
At 31 December 2019	1,445,191

	2019 £
Lease liabilities	
At 1 January 2019	1,524,470
Interest expense	29,813
Lease payments	(107,687)
At 31 December 2019	1,446,596

	2019 £
Amounts due:	
Within one year	86,813
Between one and five years	427,701
After five years	932,082
	1,446,596

	2019 £
Effect of leases on cash flows:	
Total cash outflow for leases in the year:	(107,687)

Lease terms

The Group has one property lease with a term of 13 years remaining.

No variable lease payments dependent on an index or rate, purchase options, residual value guarantees or material lease incentives were noted in the Group's existing lease contract.

GLADSTONE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****19 Borrowings**

	2019	2018
Current portion		
Bank loans and overdrafts	-	166,963

The bank overdrafts are unsecured and repayable on demand

20 Trade and other payables

	2019 £	2018 £
Current portion		
Trade payables	108,822	29,381
Amounts due to fellow group undertakings	12,913,124	12,151,561
Other tax and social security	155,162	277,510
Accrued liabilities	1,167,122	1,553,591
Other payables	535,724	97,009
	<u>14,879,954</u>	<u>14,109,052</u>

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

During the year £181,795 was charged to the statement of comprehensive income in relation to the purchase of shares to employees as part of their annual performance bonus entitlement. There are no vesting requirements attached to these shares, and the commitment is settled through the purchase of shares on the open market, reflecting a cash-settled share-based payment. As at the year-end there was a liability of £181,795 which was used to purchase shares post year end based at the current market value.

21 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.

GLADSTONE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****21 Financial instruments and financial risks (continued)**

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:

	Notes	Loans and receivables held at amortised cost	
		2019 £	2018 £
Current assets			
Trade and other receivables	16	21,329,128	22,597,062
Cash and cash equivalents	17	764,370	49,585
Total financial assets		<u>22,093,498</u>	<u>22,646,647</u>
		Financial liabilities held at amortised cost	
		2019 £	2018 £
Current liabilities			
Borrowings	19	-	166,963
Trade and other payables	20	14,724,793	13,831,542
Total financial liabilities		<u>14,724,793</u>	<u>13,998,505</u>

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. As the Group's exposure to market risk is considered to be immaterial no sensitivity analysis has been performed.

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 Group'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 and payable to third parties 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.

GLADSTONE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019**

21 Financial instruments and financial risks (continued)*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:

	2019 £	2018 £
Current assets		
Trade receivables	1,054,070	1,320,655

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 invoices in advance to obtain payment prior to a service starting.

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 2019****22 Deferred tax**

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

	Liabilities	Assets
	£	£
As at 1 January 2018	-	77,815
Debit to statement of comprehensive income	-	(47,665)
	<hr/>	<hr/>
As at 31 December 2018	-	30,150
(Debit)/Credit to statement of comprehensive income	(32,652)	24,729
	<hr/>	<hr/>
As at 31 December 2019	(32,652)	5,421
	<hr/>	<hr/>

The deferred tax asset is made up as follows:

	2019	2018
	£	£
Decelerated capital allowances	5,421	18,774
Retirement benefit obligations	-	2,118
Tax losses carried forward	-	9,258
	<hr/>	<hr/>
As at 31 December 2018	5,421	30,150
	<hr/>	<hr/>

The deferred tax liability is made up as follows:

	2019	2018
	£	£
Accelerated capital allowances	(32,652)	-
	<hr/>	<hr/>

GLADSTONE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****23 Share capital and reserves****Share capital**

	2019 No	2018 No
Allotted, issued and fully paid		
Ordinary shares of £0.01 each	59,650,933	59,650,933
Non – voting deferred shares of £0.09 each	41,116,996	41,116,996
	<u> </u>	<u> </u>
	2019 £	2018 £
Allotted, issued and fully paid		
Ordinary shares of £0.01 each	596,509	596,509
Non – voting deferred shares of £0.09 each	3,700,530	3,700,530
	<u> </u>	<u> </u>
	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.

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.

24 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.

GLADSTONE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****24 Capital risk management (continued)**

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.

25 Notes to the statement of cash flows***Reconciliation of profit to cash flows generated from operations***

	2019	2018
	£	£
Profit before tax	1,174,734	3,230,925
Adjustments for:		
Finance costs	29,814	15
Finance income	(641)	(725)
Depreciation of property, plant and equipment	159,524	52,236
Amortisation and impairment of intangible assets	417,628	-
Provision movements	21,312	-
(Increase)/decrease in inventories	9,205	(8,283)
Increase/(decrease) in receivables	1,086,977	(49,313)
(Decrease)/increase in payables	1,581,114	(744,330)
Cash generated from operations	<u>4,479,667</u>	<u>2,480,525</u>

26 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.

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 £189,683 (2018: £122,084). Contributions totalling £nil (2018: £nil) were payable to the fund at the year end.

GLADSTONE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****28 Related party transactions***Transactions with group undertakings*

The following transactions occurred with other group undertakings during the year:

	2019	2018
	£	£
Royalty income	168,823	226,386
Sales of goods and services	1,521,637	3,307
	<u>1,690,460</u>	<u>229,693</u>
Purchase of goods and services	<u>319,490</u>	<u>306,461</u>

The following balances are outstanding at the reporting date in relation to transactions with group undertakings:

	2019	2018
	£	£
Amounts owed by group undertakings	20,275,058	21,273,261
Amounts owed to group undertakings	(12,913,124)	(12,151,561)
	<u>7,361,934</u>	<u>9,121,700</u>

Transactions with other related parties

During the year the Group paid £53,417 (2018: £79,498) to Arrow Business Communications Ltd, a company of which some shares are owned by the wife of a Director. £5,611 (2018: £288) was owing from Arrow Business Communications Ltd as at the year end.

During the year the Group paid £494 (2018: £978) to Neterian Limited, a company partly owned by a Director. £46 was owing from Neterian Limited as at the year end (£91 owing to Neterian as at the year ended 2018).

Key management compensation

	2019	2018
	£	£
Wages, salaries and short-term benefits	770,586	105,437
Post-employment benefits	11,812	881
Share-based payments	157,986	19,242
	<u>940,384</u>	<u>125,560</u>

Key management personnel include all senior management across the Group who together have authority and responsibility for planning, directing and controlling the activities of the Group.

There are two Directors of the Company, who are Directors of the worldwide group, and are remunerated by Gladstone Limited's parent entities.

GLADSTONE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

30 Events after the reporting date

Since the year end date, the COVID-19 virus has spread around the world and many governments, including that of the UK, have introduced strict measures to limit social contact. Leisure facilities have been closed for a number of months during the first half of the year, and again, in the fourth quarter, as part of these measures.

Key concerns at the beginning of the Pandemic were in relation to reduction in ad hoc revenue, renewal of maintenance contracts and also cashflow.

The 2020 revenue and EBITA has not been as negatively affected as first thought, with actuals comparable to the forecasts as at the end of 2019. Net Revenue totalled £9.7m and EBITA totalled £2.2m, compared to forecasted Net Revenue of £10m and EBITA of £2m being forecasted for 2020 as at December 2019, the improvement in EBITA is mainly due to the reduction in forecasted overheads for the central service teams within the Parent Company. Forecasts have been built on a detailed bottom up approach; revenue based on pipe-line, contracts and customer and market knowledge, and costs based on historic data, future plans and knowledge of the industry.

The Group suffered from a reduction in cashflow for the first half of 2020. Due to this issue, more focus and better cashflow management has taken place and the government programmes to defer VAT and Furlough employees have been taken up. In addition to this, Gladstone had support from Jonas and the wider group to help fund its payroll commitments. Once the Leisure Facilities re-opened the Group saw a significant increase in cash coming in for August and to date, despite the additional lockdowns. The Group are still taking advantage of the furlough scheme, with more employees using the flexi furlough than in the first lockdown, this is due to operations being busier. Operations are busier than in the first lockdown due to customers using the lockdown period to focus on progressing their own projects, and also the delivery of new product lines launched in the first lockdown.

On 24 September 2020, the Group paid dividends of £2,394,978 to its parent Company.

GLADSTONE LIMITED

Company Registration No. 03327360

PARENT COMPANY STATEMENT OF FINANCIAL POSITION**AS AT 31 DECEMBER 2019**

	Notes	2019 £	2018 £
Non-current assets			
Property, plant and equipment	2	1,740,382	319,644
Other intangible assets	3	-	1
Investments in subsidiaries	4	11,686,613	11,686,613
		<u>13,426,995</u>	<u>12,006,258</u>
Current assets			
Trade and other receivables	6	8,657,609	8,935,250
Cash and cash equivalents	7	707,196	14,671
		<u>9,364,805</u>	<u>8,949,921</u>
Trade and other payables: amounts falling due within one year	8	(7,531,396)	(4,978,341)
Net current assets		<u>1,833,409</u>	<u>3,971,580</u>
Total assets less current liabilities		<u>15,260,404</u>	<u>15,977,838</u>
Provisions for liabilities			
Deferred tax	9	(33,039)	(23,645)
Lease liabilities	10	(1,359,783)	-
Net assets		<u>13,867,582</u>	<u>15,954,193</u>
EQUITY			
Called-up share capital	11	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		4,512,259	6,598,870
Total equity		<u>13,867,582</u>	<u>15,954,193</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 £358,389 (2018: £1,929,494).

The financial statements on pages 47 to 65 were approved by the Board of Directors and authorised for issue on 10/5/2021 and are signed on its behalf by:



S R Saklad
Director

The accompanying accounting policies and notes on pages 49 to 65 form an integral part of the financial statements.

GLADSTONE LIMITED**PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Share capital £	Share premium £	Other reserves £	Retained earnings £	Total £
Balance at 1 January 2018	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)
Total transactions with owners in their capacity as owners	-	-	-	(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
Profit and total comprehensive income for the year	-	-	-	358,389	358,389
Transactions with owners in their capacity as owners:					
Dividends	-	-	-	(2,445,000)	(2,445,000)
Balance at 31 December 2019	4,297,039	1,373,026	3,685,258	4,512,259	13,867,582

The accompanying accounting policies and notes on pages 49 to 65 form an integral part of the financial statements.

GLADSTONE LIMITED

PARENT COMPANY ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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 was that of a central services company for Jonas UK. The Company also owns intellectual property associated with the Plus2 software and receives royalty 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' ("FRS 101") 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.

The Company's forecasts for the period of 12 months following the approval of the financial statements has been reviewed, and accordingly the Company continues to adopt the going concern basis in preparing its individual financial statements.

Gladstone Limited's main income is royalty income received from Gladstone MRM Limited, its main subsidiary company. This income will continue to be received in as Gladstone MRM Limited continue to sell its product throughout the pandemic.

Key concerns for Gladstone MRM Limited at the beginning of the Pandemic were in relation to reduction in ad hoc revenue, renewal of maintenance contracts and also cashflow.

The 2020 revenue and EBITA for Gladstone MRM Limited has not been as negatively affected as first thought, with actuals comparable to the forecasts as at the end of 2019. Actual results were Net Revenue of £9.7m and EBITA of £1m, compared to Net Revenue of £10m and EBITA of £3.5m being forecasted for 2020 as at December 2019. Forecasts have been built on a detailed bottom up approach; revenue based on pipe-line, contracts and customer and market knowledge, and costs based on historic data, future plans and knowledge of the industry.

GLADSTONE LIMITED

PARENT COMPANY ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Gladstone MRM Limited suffered from a reduction in cashflow for the first half of 2020. Due to this issue, more focus and better cashflow management has taken place and the government programmes to defer VAT and Furlough employees have been taken up. In addition to this, Gladstone MRM Limited had support from Jonas and the wider group to help fund its payroll commitments. Once the Leisure Facilities re-opened the Group saw a significant increase in cash coming in for August and to date, despite the additional lockdowns. The Group are still taking advantage of the furlough scheme, with more employees using the flexi furlough than in the first lockdown, this is due to operations being busier. Operations are busier than in the first lockdown due to customers using the lockdown period to focus on progressing their own projects, and also the delivery of new product lines launched in the first lockdown.

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 requirements of paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 'Revenue from Contracts with Customers'.
- 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

New international reporting standards, amendments and interpretations adopted

IFRS 16

During the year, the Company adopted IFRS 16 'Leases' (IFRS 16) for the first time. IFRS 16 replaces IAS 17 'Leases'. The Company previously split leases between 'finance leases' that transferred substantially all the risks and rewards incidental to ownership of the asset to the group, and 'operating leases'. The main change on application of IFRS 16 is the accounting for 'operating leases' where rentals payable (as adjusted for lease incentives) were previously expensed under IAS 17 on a straight-line basis over the lease term.

GLADSTONE LIMITED

PARENT COMPANY ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

New international reporting standards, amendments and interpretations adopted (continued)

IFRS 16 (continued)

Under IFRS 16 a right-of-use asset and a lease liability are recognised for all leases except 'low-value' and 'short' term leases where lease payments are recognised on a straight-line basis over the lease term. The accounting for leases previously accounted for as finance leases under IAS 17 has not changed substantially, except that residual value guarantees are recognised under IFRS 16 at amounts expected to be payable rather than the maximum amount guaranteed, as required by IAS 17. At 31 December 2018 and 2019, the Company has no items of Property, plant and equipment leased under finance leases.

The Company has applied IFRS 16 retrospectively to all leases, but has elected to recognise the cumulative effect against opening reserves at 1 January 2019. Therefore, the comparative figures are as previously reported under IAS 17. The Company has applied this approach subject to the transition provisions set out below:

- A single discount rate has been applied to portfolios of leases with similar characteristics;
- The right-of-use assets have not been assessed for impairment at 1 January 2019, but have been reduced by the amount of any onerous lease provisions at that date; and

The amounts recognised for leases at 1 January 2019, have been measured as follows:

Operating leases under IAS 17, except 'low value' and 'short-term'

The lease liability is measured at the present value of the remaining lease payments at 1 January 2019, discounted at the lessee's incremental borrowing rate at that date.

The right-of-use asset is measured at the amount of the lease liability recognised in accordance with the measurement set out above, adjusted for accrued or prepaid operating lease payments at 1 January 2019.

'Low-value' leases

When the value of the underlying asset (if new) at 1 January 2019 is \$5,000 or less, the group has continued to recognise the lease payments associated with those leases on a straight-line basis over the lease term.

'Short-term' leases

Where the lease term is less than 12 months, the group has continued to recognise the lease payments associated with those leases on a straight-line basis over the lease term.

The following accounting policies were applied to leases in the year ended 31 December 2018:

Leases

Leases were classified as finance leases when the terms of the lease transferred substantially all the risks and rewards of ownership to the group. All other leases were classified as operating leases.

Rentals payable under operating leases were expensed on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease (such as up-front cash payments and reimbursement of relocation cost

GLADSTONE LIMITED**PARENT COMPANY ACCOUNTING POLICIES (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****New international reporting standards, amendments and interpretations adopted (continued)****Impact of adoption**

The Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations. On initial application, the Company has elected to record right-of-use assets based on the corresponding lease liability, adjusted by the amount of any prepaid or accrued lease payments. Right-of-use assets of £1,554,283 and lease obligations of £1,524,470 were recorded as of January 1, 2019.

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is approximately 2%. The Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

The following table reconciles the Company's operating lease obligations at December 31, 2018, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognised on initial application of IFRS 16 at January 1, 2019.

	Operating lease commitments	Incremental borrowing rate	Discounted lease commitment	Lease liability recognised	Difference
	At 31 December 2018	at 1 January 2019	at 1 January 2019	at 1 January 2019	at 1 January 2019
	£		£	£	£
Property leases	1,550,000	2%	1,373,419	1,524,470	151,051
Total	1,550,000		1,373,419	1,54,470	151,051

The difference seen is due to a rent increase which was applied at the beginning of 2019 and not factored into the previous year calculations.

GLADSTONE LIMITED

PARENT COMPANY ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP. Monetary amounts in these financial statements are rounded to the nearest £1.

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 represents the amount the Company expects to receive for the use of its Intellectual Property, net of VAT. Revenue is recognised only when (or as) the later of the following events occurs:

- the subsequent sale or usage occurs; and
- the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

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.

GLADSTONE LIMITED

PARENT COMPANY ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Current and deferred taxation (continued)

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.

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% straight-line
Leasehold improvements	- 7% straight-line
Right of use assets	- over the term of the lease or estimated useful life, whichever is shorter

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.

GLADSTONE LIMITED

PARENT COMPANY ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company 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.

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 Company 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 Company 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 Company'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.

GLADSTONE LIMITED

PARENT COMPANY ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Financial instruments (continued)

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.

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 Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company 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 Company retains an option to repurchase part of a transferred asset), the Company 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.

GLADSTONE LIMITED

PARENT COMPANY ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Financial instruments (continued)

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 Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company'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 Company's own equity instruments.

Financial liabilities

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

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

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.

GLADSTONE LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Judgements 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.

Key Sources of Estimation Uncertainty

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:

Critical Accounting Judgements and Estimates

Deferred tax assets

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.

Provisions

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.

Useful economic lives

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.

Recoverability

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 2019***IFRS 16 – discount rate*

The Group, as a lessee, measures the lease liability at the present value of the unpaid lease payments at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

Incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in similar economic environment.

The Group determines its incremental borrowing rate with reference to its existing and historical cost of borrowing adjusted for the term and security against such borrowing.

2 Property, plant and equipment

	Leasehold property	Leasehold improvement	Office equipment	Total
	£	£	£	£
Cost				
As at 1 January 2019 – as previously reported	-	273,616	130,569	404,185
Additional 'right-of-use' assets on transition to IFRS 16 (note 10)	1,554,283	-	-	1,554,283
As at 1 January 2019 – as restated	1,554,283	273,616	130,569	1,958,468
Additions – owned assets	-	12,736	-	12,736
Additions – right-of-use assets	-	-	-	-
As at 31 December 2019	1,554,283	286,352	130,569	1,971,204
Depreciation				
As at 1 January 2019	-	24,433	60,108	84,541
Charge for the period	109,092	18,399	18,790	146,281
As at 31 December 2019	109,092	42,832	78,898	230,822
Net book value				
As at 31 December 2019	1,445,191	243,520	51,671	1,740,382
As at 31 December 2018	-	249,183	70,461	319,644

GLADSTONE LIMITED**NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****2 Property, plant and equipment (continued)****Carrying value of right-of-use assets**

	Leasehold property	Leasehold improvement	Office equipment	Total
	£	£	£	£
As at 31 December 2019	1,445,191	-	-	1,445,191

3 Other intangible assets

	Intellectual property £
Cost	
As at 1 January and 31 December 2019	1
Amortisation	
As at 1 January 2019	-
Amortisation charged for the year	1
As at 31 December 2019	1
Net book value	
As at 31 December 2019	-
As at 31 December 2018	1

4 Investments

	Investments in subsidiary entities £
Cost	
As at 1 January 2019	24,930,937
As at 31 December 2019	24,930,937
Impairment	
As at 1 January 2019	13,244,324
As at 31 December 2019	13,244,324
Net book value	
As at 31 December 2019	11,686,613
As at 31 December 2018	11,686,613

GLADSTONE LIMITED**NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****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.

6 Trade and other receivables	2019 £	2018 £
Amounts due from fellow group undertakings	8,031,105	8,858,746
Prepayments	9,542	36,209
Other receivables	616,962	40,295
	<u>8,657,609</u>	<u>8,935,250</u>

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

7 Cash and cash equivalents	2019 £	2018 £
Cash at bank and in hand	<u>707,196</u>	<u>14,671</u>

GLADSTONE LIMITED**NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****8 Trade and other payables: amounts falling due within one year**

	2019	2018
	£	£
Bank overdrafts	-	166,963
Trade payables	40,975	1,541
Amounts due to fellow group undertakings	6,070,186	4,197,546
Corporation tax payable	144,264	
Other tax and social security	29,641	29,717
Other payables	475,518	53,620
Accrued liabilities	683,999	528,954
Lease liabilities	86,813	-
	<u>7,531,396</u>	<u>4,978,341</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

9 Deferred tax

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

	(Liability)/ asset
	£
As at 1 January 2019	(23,645)
Debit to statement of comprehensive income	(9,394)
As at 31 December 2019	<u>(33,039)</u>

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

	2019	2018
	£	£
Accelerated capital allowances	(33,039)	(33,438)
Retirement benefit obligations	-	535
Tax losses carried forward	-	9,258
As at 31 December 2019	<u>(33,039)</u>	<u>(23,645)</u>

GLADSTONE LIMITED**NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019****10 Leases**

	2019
	£
Right-of-use assets	
A 1 January 2019	1,554,283
Depreciation	(109,092)
	<hr/>
At 31 December 2019	1,445,191
	<hr/>

	2019
	£
Lease liabilities	
A 1 January 2019	1,524,470
Interest expense	29,813
Lease payments	(107,687)
	<hr/>
At 31 December 2019	1,446,596
	<hr/>

	2019
	£
Amounts due:	
Within one year	86,813
Between one and five years	427,701
After five years	932,082
	<hr/>
	1,446,596
	<hr/>

	2019
	£
Effect of leases on cash flows:	
Total cash outflow for leases in the year:	(107,687)
	<hr/>

Lease terms

The Company has one property lease with a term of 13 years remaining.

No variable lease payments dependent on an index or rate, purchase options, residual value guarantees or material lease incentives were noted in the Group's existing lease contract.

GLADSTONE LIMITED**NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2019**

11 Share capital	2019 £	2018 £
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.

12 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-mere of Ge. World UK and its subsidiaries in 2001.

13 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.

14 Related party transactions

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

GLADSTONE LIMITED

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

16 Events after the reporting date

Since the year end date, the COVID-19 virus has spread around the world and many governments, including that of the UK, have introduced strict measures to limit social contact. Leisure facilities have been closed for a number of months during the first half of the year, and again, in the fourth quarter, as part of these measures.

Gladstone Limited's main income is royalty income received from Gladstone MRM Limited, its main subsidiary company. This income will continue to be received in as Gladstone MRM Limited continue to sell its product throughout the pandemic

Key concerns for Gladstone MRM Limited at the beginning of the Pandemic were in relation to reduction in ad hoc revenue, renewal of maintenance contracts and also cashflow.

The 2020 revenue and EBITA for Gladstone MRM Limited has not been as negatively affected as first thought, with actuals comparable to the forecasts as at the end of 2019. Actual results were Net Revenue of £9.7m and EBITA of £1m, compared to Net Revenue of £10m and EBITA of £3.5m being forecasted for 2020 as at December 2019. Forecasts have been built on a detailed bottom up approach; revenue based on pipe-line, contracts and customer and market knowledge, and costs based on historic data, future plans and knowledge of the industry.

Gladstone MRM Limited suffered from a reduction in cashflow for the first half of 2020. Due to this issue, more focus and better cashflow management has taken place and the government programmes to defer VAT and Furlough employees have been taken up. In addition to this, Gladstone MRM Limited had support from Jonas and the wider group to help fund its payroll commitments. Once the Leisure Facilities re-opened the Group saw a significant increase in cash coming in for August and to date, despite the additional lockdowns. The Group are still taking advantage of the furlough scheme, with more employees using the flexi furlough than in the first lockdown, this is due to operations being busier. Operations are busier than in the first lockdown due to customers using the lockdown period to focus on progressing their own projects, and also the delivery of new product lines launched in the first lockdown.

On 24 September 2020, the Company paid dividends of £2,394,978 to its parent Company.