

Socrates Technology Limited

Report And Financial Statements

31 December 2018

Rees Pollock
Chartered Accountants

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Socrates Technology Limited

COMPANY INFORMATION

Directors	P Little A Usherwood
Registered number	08193077
Registered office	Roppeleghs West End Lane Haslemere Surrey GU27 2EN
Independent auditors	Rees Pollock Chartered Accountants & Statutory auditor 35 New Bridge Street London EC4V 6BW
Bankers	Morgan Stanley 25 Cabot Square Canary Wharf London E14 4QA Bank of America, N.A. PO Box 25118 Tampa Florida 33622-5118 Arizona Bank & Trust 3471 West Frye Road Chandler Arizona 85226
Solicitors	Troutman Sanders LLP Suite 5200 600 Peachtree Street, N.E. Atlanta Georgia 30308-2216

GROUP STRATEGIC REPORT
For the Year Ended 31 December 2018

Principal activity

Socrates Technology Limited was formed to act as a holding company for the Firefly business. The technology education and consulting services marketplace, particularly around Cloud and data center technologies is vibrant and Firefly has a well earned reputation and sound growth prospects in this arena. The market adoption of the systems associated with Cloud technologies has created an opportunity to help our customers implement and manage these hardware and software environments.

Business review

Turnover of the Group was \$21,853,625 (2017: \$15,591,985), a 40% increase, which has predominantly arisen due to the impact of the digital sales business being included for the full year rather than just three months since its acquisition in September 2017. Gross margin was 57% (2017: 57%), which was considered satisfactory in the context of bedding the new digital sales business into the group. Administrative costs rose by 25%, again reflecting the full year impact of the digital sales business. Administrative costs are expected to fall in the next period as we restructure our workforce having changed our data center strategy. In addition, the group suffered fair value losses of \$607,446, which predominantly arose in respect of the group's exposure to Lucidworks following the sale of its associate, Twigkit, to that company last year (see notes 3 and 14). The overall operating loss was \$1,303,306 (2017: \$1,651,115).

The trading performance of the underlying Firefly business was strong and the operating losses incurred are as a result of the impact of changes to the procurement policies of our major customers.

The group's overall loss before tax was \$1,547,378 (2017: \$2,683,939), although management are much more focussed on the operating loss line at present, as the profit before tax is subject to fluctuation arising from the capital structure of the company. In particular, dividends in relation to preference share capital are recognised as an interest expense and, as this capital is denominated in sterling, the group is also subject to foreign exchange exposure in respect of both the underlying capital and accrued unpaid preference share dividends. This led to a net charge to the income statement of \$107,281 (2017: \$1,966,653), with the decrease being due to favourable exchange rate movements.

In terms of financial position, the group has net liabilities of \$12,010,611 and net indebtedness of \$16,620,876, but both of these figures are inflated by liabilities in respect of the preference share capital of \$13,092,288. As explained in note 2.2, these liabilities will not lead to cash outflows until such time as the group is profitable. Additionally, deferred revenues of \$4,371,682 will only lead to indirect cash outflows relating to the fulfilment of those obligations, which will be significantly lower than the balance sheet liability. Accordingly, the solvency position of the group is much stronger than the balance sheet implies.

With that said, the cash reserves of the Group remain a concern, but prudent management of the situation will mitigate the position. Operating cash outflows for the year were \$424,057 (2017: \$115,573) which were largely driven by outflows of \$1,546,812 in respect of creditors, which reflects the changing procurement policies of the group's major customers. Notwithstanding this, the group was able to make net debt repayments of \$497,339 during the year. Additionally, \$3 million of the group's debt is now due to a director rather than an external finance provider. Together with debt servicing of \$147,931 this gave rise to financing outflows of \$645,270 (2017: inflows of \$1,051,032). Investment in the group's fixed asset base were largely funded by disposals from its short-term investment holdings, so net cash from investing activities was \$7,267 (2017: \$550,837). Consequently, the overall movement in cash was an outflow of \$1,062,060 (2017: inflows of \$1,486,296). Operating inflows during 2019 were stronger which, coupled with investing inflows from Lucidworks, will enable the group to pay down further debt during 2019.

GROUP STRATEGIC REPORT (CONTINUED)
For the Year Ended 31 December 2018

Principal risks and uncertainties

Socrates has a concentration of its revenues from a small number of large US technology companies. Should these companies suffer a decline there would likely be an adverse effect on the performance of Socrates. The digital transformation that is affecting our business introduces a technology and software development risk. The key financial indicator will be the continued profitability of the provision of online content at a realistic price.

Our principal risks are

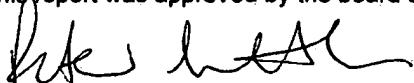
Operational risk is the risk of loss or other material adverse impact resulting from inadequate or failed internal processes, systems or external events.

Our key risks currently include operational risk along with reputational risk associated with working with global technology providers.

Future Developments

The continued industry wide enthusiasm Cloud based technologies continues to present opportunities for the Firefly business. It is anticipated that further growth will be delivered by one or more strategic partnerships or acquisitions in the future.

This report was approved by the board on 6 February 2020 and signed on its behalf.



P Little
Director

DIRECTORS' REPORT
For the Year Ended 31 December 2018

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

Directors' responsibilities statement

The directors are responsible for preparing the group strategic report, the directors' report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

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

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

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

Results and dividends

The loss for the year, after taxation and minority interests, amounted to \$1,640,369 (2017 - loss \$2,707,028).

The directors have not recommended a dividend (2017: \$nil). Details of unpaid accrued cumulative dividends on the company's preference share capital are provided in note 21.

Directors

The directors who served during the year were:

P Little
A Usherwood

Future developments

Details of likely future developments are contained in the strategic report.

DIRECTORS' REPORT (CONTINUED)
For the Year Ended 31 December 2018

Disclosure of information to auditors

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

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

Post balance sheet events

In January 2019 the contingencies surrounding deferred contingent consideration due to the Group in respect of the disposal of an associated undertaking were resolved. The Group received cash of \$554,820 and additional shares in Lucidworks Inc. Further details of this transaction are contained in note 14 of the financial statements.

In early 2019 the Group disposed of its freehold property for post-fee proceeds of \$3,100,000. The carrying value at the balance sheet date was \$2,868,653. No significant tax liability arises on disposal.

Auditors

The auditors, Rees Pollock, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 6 February 2020 and signed on its behalf.



P Little
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOCRATES TECHNOLOGY LIMITED

Opinion

We have audited the financial statements of Socrates Technology Limited for the year ended 31 December 2018, set out on pages 7 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK' (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 2018 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

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 auditors' 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.

Opinion 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 group 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 group strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOCRATES TECHNOLOGY LIMITED
(CONTINUED)**

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement on page 3, 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.

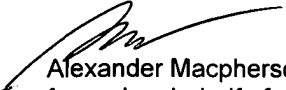
Auditors' responsibilities for the audit of the financial statements

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 auditors' 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 auditors' report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditors' 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 Parent Company and the Parent Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.


Alexander Macpherson (senior statutory auditor)
for and on behalf of

Rees Pollock
Chartered Accountants
Statutory auditor
35 New Bridge Street
London
EC4V 6BW

6 February 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 31 December 2018

	Note	2018 \$	2017 \$
Turnover	4	21,853,625	15,591,985
Cost of sales		(9,339,057)	(6,719,706)
Gross profit		12,514,568	8,872,279
Administrative expenses		(13,210,428)	(10,555,163)
Fair value movements		(607,446)	129,766
Share of loss of associates	14	-	(97,997)
Operating loss	5	(1,303,306)	(1,651,115)
Provisions against and profit on disposal of investments		-	996,775
Interest receivable and similar income	9	864,527	87,313
Interest payable and expenses	10	(1,108,599)	(2,116,912)
Loss before taxation		(1,547,378)	(2,683,939)
Tax on loss	11	(33,524)	105,420
Loss for the financial year		(1,580,902)	(2,578,519)
Foreign exchange difference on retranslation of subsidiary		3,097	(2,610)
Other comprehensive income for the year		3,097	(2,610)
Total comprehensive income for the year		(1,577,805)	(2,581,129)
(Loss) for the year attributable to:			
Non-controlling interests		59,467	128,509
Owners of the parent Company		(1,640,369)	(2,707,028)
		(1,580,902)	(2,578,519)
Total comprehensive income for the year attributable to:			
Non-controlling interest		60,396	127,685
Owners of the parent Company		(1,638,201)	(2,708,814)
		(1,577,805)	(2,581,129)

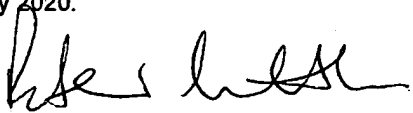
The notes on pages 14 to 31 form part of these financial statements.

CONSOLIDATED BALANCE SHEET
As at 31 December 2018

	Note	2018 \$	2017 \$
Fixed assets			
Intangible assets	12	3,148,123	3,987,623
Tangible assets	13	4,372,737	4,382,147
Investments	14	668,821	1,185,226
		<u>8,189,681</u>	<u>9,554,996</u>
Current assets			
Debtors: amounts falling due after more than one year	15	4,000	-
Debtors: amounts falling due within one year	15	3,118,108	3,102,108
Current asset investments	16	1,551,381	2,535,702
Cash at bank and in hand		1,014,712	2,079,336
		<u>5,688,201</u>	<u>7,717,146</u>
Creditors: amounts falling due within one year	17	(18,495,251)	(19,392,530)
Net current liabilities		<u>(12,807,050)</u>	<u>(11,675,384)</u>
Total assets less current liabilities		<u>(4,617,369)</u>	<u>(2,120,388)</u>
Creditors: amounts falling due after more than one year	18	(7,393,242)	(8,312,418)
Net liabilities		<u>(12,010,611)</u>	<u>(10,432,806)</u>
Capital and reserves			
Called up share capital	21	2	2
Other reserves		3,579,055	3,579,055
Profit and loss account		(13,279,440)	(11,641,239)
Equity attributable to owners of the parent Company		<u>(9,700,383)</u>	<u>(8,062,182)</u>
Non-controlling interests		(2,310,228)	(2,370,624)
		<u>(12,010,611)</u>	<u>(10,432,806)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 6 February 2020.

P Little
Director



The notes on pages 14 to 31 form part of these financial statements.

COMPANY BALANCE SHEET
As at 31 December 2018

	Note	2018 \$	2017 \$
Fixed assets			
Investments	14	3,870,488	4,419,526
		<u>3,870,488</u>	<u>4,419,526</u>
Current assets			
Debtors: amounts falling due within one year	15	5,219,475	4,956,850
Cash at bank and in hand		430,613	524,554
		<u>5,650,088</u>	<u>5,481,404</u>
Creditors: amounts falling due within one year	17	(6,164,868)	(5,629,746)
Net current liabilities		<u>(514,780)</u>	<u>(148,342)</u>
Total assets less current liabilities		<u>3,355,708</u>	<u>4,271,184</u>
Creditors: amounts falling due after more than one year	18	(7,112,912)	(7,555,235)
Net liabilities		<u>(3,757,204)</u>	<u>(3,284,051)</u>
Capital and reserves			
Called up share capital	21	2	2
Profit and loss account		(3,757,206)	(3,284,053)
		<u>(3,757,204)</u>	<u>(3,284,051)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 6 February 2020.

P Little
Director



The notes on pages 14 to 31 form part of these financial statements.

Socrates Technology Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2018

	Called up share capital \$	Merger reserve \$	Profit and loss account \$	Equity attributable to owners of parent Company \$	Non- controlling interests \$	Total equity \$
At 1 January 2017	2	-	(8,932,425)	(8,932,423)	-	(8,932,423)
Loss for the year	-	-	(2,707,028)	(2,707,028)	128,509	(2,578,519)
Foreign exchange difference on retranslation of subsidiary	-	-	(1,786)	(1,786)	(824)	(2,610)
Total comprehensive income for the year	-	-	(2,708,814)	(2,708,814)	127,685	(2,581,129)
Acquisition of subsidiary	-	3,579,055	-	3,579,055	(2,498,309)	1,080,746
Total transactions with owners	-	3,579,055	-	3,579,055	(2,498,309)	1,080,746
At 1 January 2018	2	3,579,055	(11,641,239)	(8,062,182)	(2,370,624)	(10,432,806)
Loss for the year	-	-	(1,640,369)	(1,640,369)	59,467	(1,580,902)
Foreign exchange difference on retranslation of subsidiary	-	-	2,168	2,168	929	3,097
Total comprehensive income for the year	-	-	(1,638,201)	(1,638,201)	60,396	(1,577,805)
At 31 December 2018	2	3,579,055	(13,279,440)	(9,700,383)	(2,310,228)	(12,010,611)

The notes on pages 14 to 31 form part of these financial statements.

The merger reserve represents the difference between the fair value of equity consideration given to non-controlling interests on the acquisition of KnowledgeNet Enterprises, LLC and the net liabilities of Firefly Holdings Inc. attributable to non-controlling interests as a result of that acquisition.

COMPANY STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2018

	Called up share capital	Profit and loss account	Total equity
	\$	\$	\$
At 1 January 2017	2	(1,615,683)	(1,615,681)
Loss for the year	-	(1,668,370)	(1,668,370)
At 1 January 2018	2	(3,284,053)	(3,284,051)
Loss for the year	-	(473,153)	(473,153)
At 31 December 2018	2	(3,757,206)	(3,757,204)

The notes on pages 14 to 31 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2018

	2018 \$	2017 \$
Cash flows from operating activities		
Loss for the financial year	(1,580,902)	(2,578,519)
Adjustments for:		
Amortisation of intangible assets	839,500	1,643,421
Depreciation of tangible assets	938,819	650,481
Interest payable	1,108,599	1,036,729
Interest receivable	(864,527)	(87,313)
Taxation charge	33,524	(105,420)
(Increase) in debtors	(62,775)	(936,127)
(Decrease)/increase in creditors	(1,546,812)	289,509
Net fair value losses/(gains) recognised in P&L	607,446	(129,766)
Share of operating profit/(loss) in associates	-	(898,778)
Corporation tax received/(paid)	107,752	(79,973)
Foreign exchange movements	(4,681)	1,080,183
Net cash generated from operating activities	(424,057)	(115,573)
Cash flows from investing activities		
Acquisition of subsidiary	-	135,647
Purchase of tangible fixed assets	(929,865)	(1,253,989)
Sale of short term listed investments	-	1,140,591
Purchase of short term unlisted investments	(58,822)	(56,173)
Sale of short term unlisted investments	952,944	-
Sale of share in associates	-	524,554
Interest received	63,991	87,313
HP interest paid	(20,981)	(27,106)
Net cash from investing activities	7,267	550,837
Cash flows from financing activities		
New secured loans	-	500,000
Repayment of loans	(3,175,187)	(15,657)
Finance leases advanced	-	966,992
Repayment of finance leases	(328,907)	(277,149)
Loans from directors	3,006,755	-
Interest paid	(147,931)	(123,154)
Net cash used in financing activities	(645,270)	1,051,032
Net (decrease)/increase in cash and cash equivalents	(1,062,060)	1,486,296
Cash and cash equivalents at beginning of year	2,079,336	596,325
Foreign exchange gains and losses	(4,473)	(3,285)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
For the Year Ended 31 December 2018

	2018 \$	2017 \$
Cash and cash equivalents at the end of year	1,012,803	2,079,336
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	1,014,712	2,079,336
Bank overdrafts	(1,909)	-
	1,012,803	2,079,336

CONSOLIDATED ANALYSIS OF NET DEBT
For the Year Ended 31 December 2018

	At 1 January 2018 \$	Cash flows \$	Other non- cash changes \$	At 31 December 2018 \$
Cash at bank and in hand	2,079,336	(1,060,151)	(4,473)	1,014,712
Bank overdrafts	-	(1,909)	-	(1,909)
Debt due after 1 year	(7,942,764)	199,092	442,323	(7,301,349)
Debt due within 1 year	(3,951,603)	(30,660)	(9,755)	(3,992,018)
Preference share accrual	(5,429,939)	-	(549,437)	(5,979,376)
Finance leases	(689,843)	328,907	-	(360,936)
	(15,934,813)	(564,721)	(121,342)	(16,620,876)

The notes on pages 14 to 31 form part of these financial statements.

Non-cash movements arise from: exchange rate movements on overseas cash holdings; accrued preference share dividends and exchange rate movements on sterling denominated preference shares and preference share accruals; and fair value movements on liquid investments.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

1. General information

Socrates Technology Limited is a private company limited by shares incorporated in the United Kingdom and registered in England and Wales. The company's registered office is Roppeleggs, West End Lane, Haslemere, Surrey GU27 2EN. The company acts as holding company for a group, the principal activities of which are internetworking education and consulting services.

2. Accounting policies

2.1 Basis of preparation of financial statements

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

The company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to the presentation of a cash flow statement.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. Management are also required to exercise judgment in applying the entity's accounting policies. Details of estimates and judgements are contained in note 3.

The Group has elected to apply all amendments to FRS 102, as set out in the triennial review published in December 2017, prior to the mandatory adoption for accounting periods beginning on or after 1 January 2019.

2.2 Going concern

The Group has net liabilities of \$12,010,611 and net indebtedness of \$16,620,876.

Both of these figures include \$13,092,288 due in respect of preference shares held by the ultimate controlling party. Cash outflows in respect of these instruments can only be made when there are distributable reserves available to make payments, or there is a capital restructuring exercise. Accordingly, they are not expected to lead to significant cash outflows in the short to medium term.

Additionally, the Group has deferred revenues of \$2,514,479 associated with Firefly Holdings, Inc. ('Firefly') and \$1,857,203 associated with KnowledgeNet Enterprises LLC ('KNet'). Neither of these amounts will lead to direct cash outflows: the deferred revenues associated with Firefly will incur costs of delivery, which are lower than the balance sheet liability due to deferred profit; those associated with KNet will lead to minimal cash costs as the associated costs of delivery have largely been prepaid.

Consequently, neither the balance sheet position nor the indebtedness statement represents a true reflection of the Group's solvency.

In this context the directors have prepared forecasts which indicate that the Group will continue to be able to pay its liabilities as they fall due for a period of not less than twelve months from the date of approval of these financial statements. Accordingly, they continue to adopt the going concern basis in the preparation of the financial statements.

No assessment has been made of the financial effect of the going concern basis proving to be inappropriate.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

2. Accounting policies (continued)

2.3 Basis of consolidation

The consolidated financial statements present the results of the Group and its own subsidiaries ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

In accordance with the transitional exemptions available in FRS 102, business combinations occurring prior to 1 January 2014 have not been restated under FRS 102 and carrying values arising under historic GAAP have been retained.

2.4 Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of the Group's share of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the profit and loss account over its useful economic life of 5 years.

2.5 Tangible fixed assets

Tangible fixed assets 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.

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

Depreciation is provided on the following basis:

Freehold property	- 50 years straight line
Fixtures and fittings	- 5 to 7 years straight line
Computer equipment	- 3 to 7 years straight line

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 consolidated statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

2. Accounting policies (continued)

2.6 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

2.7 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in unlisted shares, whose market value can be reliably determined, are remeasured to market value at each balance sheet date. Gains and losses on remeasurement are recognised in the profit or loss for the period. Where market value cannot be reliably determined, such investments are stated at historic cost less impairment.

Investments in listed company shares are remeasured to market value at each balance sheet date. Gains and losses on remeasurement are recognised in profit or loss for the period.

2.8 Financial assets

Other than investments (see above), the Group only enters into basic financial instruments transactions that result in the recognition of financial assets like trade and other accounts receivable and loans to related parties.

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

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

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

2. Accounting policies (continued)

2.9 Financial liabilities

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Subsequently financial liabilities are measured at amortised cost using the effective interest rate method of accounting.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

A liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

2.10 Turnover

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

Turnover from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied: the amount of turnover can be measured reliably; it is probable that the Group will receive the consideration due under the contract; the stage of completion of the contract at the end of the reporting period can be measured reliably; and the costs incurred and the costs to complete the contract can be measured reliably.

Specifically, contracts to deliver a set number of training courses are recognised as courses are delivered on a pro rata basis. Contracts to allow access to training materials over a period of time are recognised on a pro rata basis over the period in which access is to be provided.

2.11 Operating leases: the Group as lessee

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

2.12 Pensions

Defined contribution pension plan

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

The contributions are recognised as an expense in the consolidated statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the Group in independently administered funds.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

2. Accounting policies (continued)

2.13 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is USD.

Transactions and balance

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

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 profit and loss account.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income.

2.14 Interest income

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

2.15 Finance costs

Finance costs are charged to the consolidated 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.

2.16 Taxation

Tax is recognised in the profit and loss account, except that a change 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 balance sheet date in the countries where the Company and the Group operate and generate income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date.

2.17 Dividends

Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

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

During 2017 the Group acquired all of the equity interests of KnowledgeNet Enterprises LLC ('KNet') in a share-for-share swap. As no cash changed hands and the equity consideration in the transaction related to an unlisted entity, the establishment of the fair value of that consideration was based on unobservable inputs and assumptions. As the value of the equity consideration directly impacted the amount of goodwill recognised in the transaction, this represents a key estimation in the consolidated financial statements. The goodwill recognised in the transaction was \$4,197,498, which has a carrying value at the balance sheet date of \$3,148,123. If the equity consideration had been valued 10% lower, then the goodwill recognised in the transaction would have decreased by \$199,244, and the current carrying value would be \$2,998,691. The amortisation charge for the current year would have been reduced by \$39,849 in this scenario.

In 2017, the Group disposed of its holding in Twigkit Limited ('Twigkit'), an associate, in exchange for cash and equity consideration. As the counterparty, Lucidworks, Inc., is unlisted, the fair value of the equity consideration is based on unobservable inputs and represents a key source of estimation uncertainty. The valuation was established based on analysis prepared by a corporate finance house which had invested in Twigkit. This analysis compared public company matrices with the management of Lucidworks Inc.'s estimate of the expected share price of Lucidworks Inc.'s shares in the next anticipated funding round for that entity. This produced a range of valuations, and management utilised the lower end of that range in measuring the fair value of the consideration on initial recognition, resulting in an initial value for the shares of \$1,185,226. Had management used the upper end of the range then the profit on disposal of Twigkit would have increased by \$296,307, with a corresponding increase in the Group's unlisted fixed asset investments. As Lucidworks Inc. is unlisted, the carrying value of the Group's holding will vary on a funding round and the resulting fair value movement will be sensitive to this original estimation of fair value. During the current year the fair value of the Group's holding in Lucidworks Inc. fell by \$549,038.

Additionally, management has judged that deferred contingent consideration relating to this disposal cannot be recognised as it depends on events outside the entity's control. Details of the contingent consideration are included in note 14. The contingencies relating to this were resolved in January 2019 and additional consideration of \$863,541 will be recognised in the year ended 31 December 2019.

4. Turnover

The whole of the turnover is attributable to internetworking education and consulting services.

An analysis of turnover by geographical market has not been provided as the directors believe that to do so may be seriously prejudicial to the interests of the group.

5. Operating loss

The operating loss is stated after charging:

	2018	2017
	\$	\$
Depreciation of tangible fixed assets	938,819	650,481
Amortisation of intangible assets, including goodwill	839,500	1,643,421
Exchange differences	26,966	(55,269)
Other operating lease rentals	560,525	188,380
	<u>1,365,810</u>	<u>1,386,913</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

6. Auditors' remuneration

	2018 \$	2017 \$
Fees payable to the Group's auditor and its associates for the audit of the Group's annual accounts	51,000	47,000
	<u>51,000</u>	<u>47,000</u>
Fees payable to the Group's auditor and its associates in respect of:		
The auditing of accounts of associates of the Group pursuant to legislation	7,000	7,000
Other services relating to taxation	6,000	6,000
	<u>13,000</u>	<u>13,000</u>

7. Employees

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

	Group 2018 \$	Group 2017 \$	Company 2018 \$	Company 2017 \$
Wages and salaries	8,114,175	5,721,578	-	-
Social security costs	529,470	339,052	-	-
Cost of defined contribution scheme	126,811	59,983	-	-
	<u>8,770,456</u>	<u>6,120,613</u>	<u>-</u>	<u>-</u>

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

2018 No.	2017 No.
<u>83</u>	<u>46</u>

The Company has no employees other than the directors, who did not receive any remuneration (2017 - \$NIL)

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

8. Directors' remuneration

	2018 \$	2017 \$
Directors' emoluments	<u>299,808</u>	<u>238,313</u>

The highest paid director received remuneration of \$299,808 (2017 - \$238,313).

9. Interest receivable

	2018 \$	2017 \$
Exchange difference on retranslation of equity treated as debt	800,536	-
Other interest receivable	63,991	87,313
	<u>864,527</u>	<u>87,313</u>

10. Interest payable and similar expenses

	2018 \$	2017 \$
Loan interest payable	179,801	123,153
Exchange difference on retranslation of equity treated as debt	-	1,080,183
Preference share dividends	907,817	886,470
Finance leases and hire purchase contracts	20,981	27,106
	<u>1,108,599</u>	<u>2,116,912</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

11. Taxation

	2018 \$	2017 \$
Corporation tax		
Current tax on profits for the year	32,878	(105,420)
Foreign tax		
Foreign tax on income for the year	646	-
Total current tax	<u>33,524</u>	<u>(105,420)</u>
Total deferred tax	-	-
Taxation on loss on ordinary activities	<u><u>33,524</u></u>	<u><u>(105,420)</u></u>

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2017 - *higher than*) the standard rate of corporation tax in the USA of 21% (2017 - 29.39%). The differences are explained below:

	2018 \$	2017 \$
Loss on ordinary activities before tax	<u>(1,547,378)</u>	<u>(2,683,939)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the USA of 21% (2017 - 29.39%)	(324,949)	(788,810)
Effects of:		
Non-tax deductible amortisation of goodwill	37,568	191,796
Expenses not deductible for tax purposes, other than goodwill amortisation	198,072	273,369
Capital allowances for year in excess of depreciation	109,481	(19,010)
Carried forward tax losses	94,746	265,960
Higher rate taxes on overseas earnings	7,982	(14,347)
Adjustments to tax charge in respect of prior periods	-	(134,624)
Other timing differences leading to an increase (decrease) in taxation	(36,561)	72,803
Non-taxable exchange rate losses/(gains) on non-equity share capital	(168,113)	317,504
Non-taxable income	115,298	(270,061)
Total tax charge for the year	<u><u>33,524</u></u>	<u><u>(105,420)</u></u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

11. Taxation (continued)

Factors that may affect future tax charges

At the balance sheet date the group had aggregate tax positions arising from unrelieved tax losses carried forward and timing differences in the deductibility of the group's fixed assets of \$4,706,263 (2017: \$746,175), resulting in an unrecognised deferred tax asset at the standard rate of corporation tax in the relevant jurisdictions of \$988,315 (2017: \$154,473). The asset has not been recognised due to uncertainties over the timing and nature of profits against which it will reverse.

12. Intangible assets

Group

	Goodwill \$
Cost	
At 1 January 2018	14,949,089
At 31 December 2018	<u>14,949,089</u>
Amortisation	
At 1 January 2018	10,961,466
Charge for the year	839,500
At 31 December 2018	<u>11,800,966</u>
Net book value	
At 31 December 2018	<u>3,148,123</u>
At 31 December 2017	<u>3,987,623</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

13. Tangible fixed assets

Group

	Freehold property \$	Fixtures and fittings \$	Computer equipment \$	Total \$
Cost				
At 1 January 2018	3,100,000	365,168	3,764,238	7,229,406
Additions	-	4,074	925,791	929,865
At 31 December 2018	<u>3,100,000</u>	<u>369,242</u>	<u>4,690,029</u>	<u>8,159,271</u>
Depreciation				
At 1 January 2018	248,000	76,972	2,522,287	2,847,259
Charge for the year on owned assets	62,000	37,513	839,306	938,819
Exchange adjustments	-	-	456	456
At 31 December 2018	<u>310,000</u>	<u>114,485</u>	<u>3,362,049</u>	<u>3,786,534</u>
Net book value				
At 31 December 2018	<u>2,790,000</u>	<u>254,757</u>	<u>1,327,980</u>	<u>4,372,737</u>
At 31 December 2017	<u>2,852,000</u>	<u>288,196</u>	<u>1,241,951</u>	<u>4,382,147</u>

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2018 \$	2017 \$
Computer equipment	<u>369,653</u>	<u>252,040</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

14. Fixed asset investments

Group

	Unlisted investments \$
Valuation	
At 1 January 2018	1,185,226
Revaluations	(516,405)
At 31 December 2018	<u>668,821</u>

Contingent consideration

In April 2017 the Group sold its 37% holding in Twigkit Limited, an associated undertaking, for cash of \$554,820 and 871,490 common stock in Lucidworks, Inc., the purchaser. The unlisted common stock was valued at \$1,185,226 and costs of \$30,266 were incurred, realising a profit on disposal of \$1,016,775. Net cash received on disposal after costs was \$524,554.

As part of the sale agreement additional deferred consideration is due contingent on certain conditions being met. The amount of deferred contingent consideration is \$554,820 of cash and 422,906 of common stock in Lucidworks, Inc. As at the date of approval of these financial statements it is probable that these conditions will be met but, as they are outside the Group's control, the additional consideration will only be recognised when the conditions are satisfied. The conditions were satisfied in January 2019 and the additional consideration will be recognised in the year ended 31 December 2019.

Company

	Subsidiaries \$	Unlisted \$	Total \$
Cost			
At 1 January 2018	3,234,300	1,185,226	4,419,526
Revaluations	-	(549,038)	(549,038)
At 31 December 2018	<u>3,234,300</u>	<u>636,188</u>	<u>3,870,488</u>

The Company has deferred contingent consideration as described above.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018
14. Fixed asset investments (continued)**Subsidiary undertakings**

The following were subsidiary undertakings of the Company:

Name	Principal activity	Class of shares	Holding
Firefly US Holdings Inc.	Internetworking education and consulting services (USA)	Ordinary	100%
Firefly Communication LLC	Dormant (USA)	Ordinary	100%
Athena Holdings Inc.	Property management (USA)	Ordinary	100%
Firefly Training EMEA Limited	Internetworking education and consulting services (UK)	Ordinary	100%
Firefly APAC Pte. Limited	Internetworking education and consulting services (Singapore)	Ordinary	100%
KnowledgeNet Enterprises LLC	Internetworking education and consulting services (USA)	Ordinary	100%

15. Debtors

	Group 2018 \$	Group 2017 \$	Company 2018 \$	Company 2017 \$
Due after more than one year				
Other debtors	4,000	-	-	-
	4,000	-	-	-
	Group 2018 \$	Group 2017 \$	Company 2018 \$	Company 2017 \$
Due within one year				
Trade debtors	2,126,727	2,436,596	-	-
Amounts owed by group undertakings	-	-	5,219,475	4,956,850
Other debtors	562,707	312,534	-	-
Prepayments and accrued income	428,674	352,978	-	-
	3,118,108	3,102,108	5,219,475	4,956,850

The Group's other debtors include \$256,141 (2017: \$270,349) of non-financial instruments and \$306,566 (2017: \$42,185) of financial instruments. The latter, together with trade debtors mean that group debtors include \$2,433,293 (2017: \$2,478,781) of financial assets which are carried at amortised cost.

All of the company's debtors represent financial assets carried at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

16. Current asset investments

	Group 2018 \$	Group 2017 \$
Unlisted investments	1,551,381	2,535,702

Current asset investments and fixed asset investments in unlisted shares are the only financial instruments measured at fair value through profit and loss. The fair value of fixed asset investments in unlisted shares is based on the previous equity valuation suggested by shares issued by the undertaking. The fair value of unlisted current asset investments comprises mutual funds, the fair value of which is readily available based on underlying share prices, and provided by the investment managers.

All other financial instruments are measured at amortised cost using the effective interest rate method.

17. Creditors: Amounts falling due within one year

	Group 2018 \$	Group 2017 \$	Company 2018 \$	Company 2017 \$
Bank overdrafts	1,909	-	-	-
Bank loans	975,508	3,951,603	-	-
Trade creditors	1,948,080	1,063,495	-	-
Amounts owed to group undertakings	-	-	-	163,518
Corporation tax	163,516	29,360	21,907	23,838
Other taxation and social security	199,844	21,832	-	-
Obligations under finance lease and hire purchase contracts	269,043	320,189	-	-
Other creditors	3,685,341	209,619	12,451	12,451
Accruals and deferred income	11,252,010	13,796,432	6,130,510	5,429,939
	18,495,251	19,392,530	6,164,868	5,629,746

Group accruals and deferred income includes \$6,880,328 (2017: \$6,917,988) of accruals. Together with bank overdrafts and loans, trade creditors, obligations under finance leases and hire purchase contracts and other creditors mean that \$13,760,209 (2017: \$12,462,894) is included in Group creditors: amounts falling due within one year relating to financial liabilities carried at amortised cost.

Other creditors include a loan from a director of \$3,006,755 (2017: \$nil).

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

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

	Group 2018 \$	Group 2017 \$	Company 2018 \$	Company 2017 \$
Bank loans	188,437	387,529	-	-
Net obligations under finance leases and hire purchase contracts	91,893	369,654	-	-
Share capital treated as debt	7,112,912	7,555,235	7,112,912	7,555,235
	<u>7,393,242</u>	<u>8,312,418</u>	<u>7,112,912</u>	<u>7,555,235</u>

Disclosure of the terms and conditions attached to the non-equity shares is made in note 21.

All creditors: amounts falling due after more than one year relate to financial liabilities carried at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

19. Loans

Analysis of the maturity of loans is given below:

Loan balances comprise:

	Group 2018 \$	Group 2017 \$
Amounts falling due within one year		
Bank loans	975,508	3,951,603
Amounts falling due 1-2 years		
Bank loans	70,167	227,745
Amounts falling due 2-5 years		
Bank loans	118,270	159,784
	<u>1,163,945</u>	<u>4,339,132</u>

The Group has a bank loan of \$761,970 (2017: \$3,880,336) which is payable on demand and secured against the Group's current asset investments and subject to a personal guarantee from the ultimate controlling party.

The Group also has a bank loan with outstanding principal of \$251,975 (2017: \$308,796) repayable by monthly payments over the period to 7 October 2022. Interest is charged at 5.5% per annum. The loan is secured on the tangible assets of KnowledgeNet Enterprises LLC. and subject to a personal guarantee from key management personnel of that entity.

The Group has a loan of \$150,000 (2017: \$150,000) which is repayable as a lump sum on 1 October 2019 and secured on the tangible assets of KnowledgeNet Enterprises LLC. Interest is charged at the Prime Rate published in the Wall Street Journal plus 2%, but subject to a floor of 6.5%.

All of the loan facilities comprise basic financial liabilities and are measured at amortised cost using the effective interest rate methodology.

20. Hire purchase and finance leases

Minimum lease payments under hire purchase fall due as follows:

	Group 2018 \$	Group 2017 \$
Within one year	269,043	320,189
Between 1-5 years	91,893	369,654
	<u>360,936</u>	<u>689,843</u>

Finance leases are secured on the assets to which the borrowings relate.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

21. Share capital

	2018 \$	2017 \$
Shares classified as equity		
Allotted, called up and fully paid		
152 (2017 - 152) A shares of £0.01 each	2	2
48 (2017 - 24) B shares of £0.01 each	-	-
	<u>2</u>	<u>2</u>
	<u>2018</u>	<u>2017</u>
	\$	\$
Shares classified as debt		
Allotted, called up and fully paid		
7,112,912 (2017 - 5,584,888) Preference shares of £1.00 each	7,112,912	7,555,235
	<u>7,112,912</u>	<u>7,555,235</u>

The preference shares shall confer the right to receive, in priority to the holders of the other classes of shares, a fixed cumulative dividend at the rate of 10% per annum on the issue price of the preference shares. The dividend shall accrue on a daily basis and is payable, subject to the Companies Act 2006 ("the Act"), twice a year in arrears on 1 March and 1 September in each year. Where the dividend cannot be paid due to the provisions of the Act the dividend shall be increased from that date until payment by an additional amount calculated at the rate of 3% per annum above the base rate of The Bank of England from time to time, compounded on 1 January and 1 June in each year on the amount unpaid. Dividends other than those on the preference shares may be made by the directors as they see fit. However, a dividend payment on one class of shares shall not give rise to an entitlement on any other class of share.

On a return of capital the surplus assets of the company shall be applied: first in paying any unpaid dividends on the preference shares; second in paying an amount equal to the issue price of the preference shares; third in the payment of any declared but unpaid dividends on the A shares; fourth in paying any declared but unpaid dividends on the B shares; and thereafter the balance will be distributed to the holders of the A and B shares as if they constituted one class of shares.

As regards voting, the holders of the preference shares shall be entitled to notice of and the right to speak at any general meeting, but shall have no voting rights. The A shares and B shares have voting rights in general meeting such that the A shares shall always constitute 80% of the votes and the B shares 20% of the votes.

While there is no mandatory repayment of the preference shares, they have been classified as debt in accordance with the substance of the agreement.

During 2016 the company entered into a capital reduction by way of solvency statements and 1,997,036 preference shares of £1 each were cancelled giving rise to a discharge of amounts unpaid on these shares.

The cumulative unpaid dividend on the Group's preference shares included in accruals is \$5,979,376 (2017: \$5,429,939). Such amounts can only be paid in accordance with company law on distributable profits.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2018

22. Commitments under operating leases

At 31 December 2018 the Group had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2018 \$	Group 2017 \$
Not later than 1 year	494,956	338,960
Later than 1 year and not later than 5 years	1,188,106	1,189,248
	<u>1,683,062</u>	<u>1,528,208</u>

The Company had no operating lease commitments.

23. Related party transactions

During the year P Little advanced the group a \$3,006,755 loan. Interest is charged at 5% per annum and total interest incurred during the year was \$113,268 (2017: \$nil) of which \$50,250 (2017: \$nil) was outstanding at the year end.

At 1 January 2018 \$637,855 (2017: \$637,855) was due from A Usherwood, a director. Advances in the year totalled \$nil (2017: \$58,920). The highest balance outstanding during the year was \$637,855 (2017: \$696,776). During the year the provision was increased by \$nil (2017: \$16,253) to provide against the balance in full, and exchange losses of \$nil (2017: \$42,667) were incurred on the balance.

In addition to the directors, certain other employees constitute key management personnel as defined in FRS 102 and the total amount paid to key management personnel, including the directors, was \$1,001,179 (2017: \$612,383).

24. Post balance sheet events

In January 2019 the contingencies surrounding deferred contingent consideration due to the Group in respect of the disposal of an associated undertaking were resolved. The Group received cash of \$554,820 and additional shares in Lucidworks Inc. Further details of this transaction are contained in note 14 of the financial statements.

In early 2019 the Group disposed of its freehold property for post-fee proceeds of \$3,100,000. The carrying value at the balance sheet date was \$2,868,653. No significant tax liability arises on disposal.

25. Controlling party

The company is controlled by P Little.