

IDE Group Holdings plc

Annual report and financial statements

Registered number SC368538

Year ended 31 December 2018

Parent acc. SC368538



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Directors and Advisers

Directors

Andy Parker (Executive Chairman)
Ian Smith (Executive Director)
Max Royde (Non-Executive Director)

Company Secretary

Delgany Corporate Services Limited

Registered Office

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Company Number SC368538

Nominated Adviser and Broker

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Solicitors

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London EC4N 8AF

Auditors

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Share Register

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Principal Banker

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Company Profile

The principal activities of IDE Group Holdings plc are the provision of network, hosting and managed services to public and private companies.

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

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

Summary

- Revenue of £41.1 million from continuing operations* (2017: £53.7 million)
- Adjusted EBITDA** loss of £3.9 million from continuing operations* (2017: profit of £4.1 million), following review of, *inter alia*, onerous contracts, previously capitalised staff costs and classification of exceptional items
- New leadership team appointed with significant industry experience; Andy Parker as Executive Chairman, Ian Smith as Executive Director and Max Royde as Non-Executive Director
- Total funds of £7.55 million raised by way of equity and convertible loan notes in order to provide working capital and re-capitalise Company's balance sheet
- Strategic and operational review undertaken resulting in a total of £7.2 million of annualised staff cost reductions, along with other operational cost savings
- Settlement reached in relation to an outsourced service contract which resulted in a total saving of c.£3 million over the next three years
- Disposal of 365 ITMS Limited together with PACT business unit in October 2018 for total cash consideration of £3 million, proceeds used to reduce net debt

Post period-end

- Issue of £10 million secured loan notes, the proceeds of which were used to repay the Company's debt facilities with National Westminster Bank plc and to provide additional working capital¹
 - Loan notes subscribed for by existing shareholders, Company now has no external debt other than with key shareholders
- Strong pipeline of opportunities with both existing and new customers and partners
- Group trading profitably at an Adjusted EBITDA** level for year to date

* Total revenue from continuing and discontinued operations of £51.6 million (2017: £65.0 million) and total Adjusted EBITDA** loss of £3.3 million (2017: profit of £5.4 million) including 9 months' contribution from 365 ITMS Limited and the PACT business unit until date of disposal. 2017 comparative includes 9 months' contribution from 365 ITMS Limited from date of acquisition and 6 months of the PACT business unit from date of establishment

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

¹ see note 32 to the Financial Statements

Chairman's Statement

The year being reported was a difficult one for IDE. The business has faced significant challenges created by the previous leadership team which have necessitated substantial effort and work in order to right-size the cost base and re-capitalise the balance sheet, the detail of which I will take you through below.

At the beginning of the year, in order to improve cash generation and reduce net debt, the then Board announced a cost reduction programme, targeting a reduction of at least £2.0 million from personnel costs and at least £1.5 million from third party costs on an annualised basis, the benefit of which they expected to come through before the end of March 2018. Furthermore, at the time of reporting the final results for the year ended 31 December 2017 in May 2018 (the "Final Results"), it was noted by the then Chairman that profitability in 2018 was expected to be significantly lower than in 2017 but was expected to improve steadily throughout 2018 following implementation of a strategic and operational review. However, progress with both the cost reductions and the strategic and operational review was at best limited in the hands of the previous leadership team which resulted in the Company facing severe financial pressures.

As a result of these financial pressures, shortly after the publication of the Final Results, the Company raised £2.0 million by way of the issue of loan notes in May 2018. This raise was supported by William ("Bill") Dobbie, MXC Capital Limited ("MXC") and Kestrel Partners LLP, the latter two being the largest shareholders of the Company. At the same time Ian Smith, Chief Executive Officer and substantial shareholder of MXC, joined the Board to lead the strategic and operational review and Julian Phipps stepped down from the Board, with the other former executive director, Andy Ross, having resigned in March 2018.

Strategic and Operational Review

As part of the strategic and operational review the little integration that had been initiated by the previous management was reversed and the Group was split back into the three component parts which comprised the original acquisitions made by the Group, namely, IDE Group Manage Limited (formerly Selection Services), IDE Group Connect Limited (formerly C4L) and 365 ITMS Limited. There was a considerable lack of clarity around the trading performance of the Group and in doing this the activities which generate cash and those which are loss-making were able to be identified.

Generally, when completing a "Buy and Build", which was IDE's stated strategy, synergies are part and parcel of the business case and one would reasonably expect that as a result of putting together the three companies that comprised the Group, there would be a smaller number of staff than would have existed across the three companies at the time of acquisition. However, this was far from the case: at the time of the acquisitions there were a combined 440 members of staff across all three companies and as at 31 December 2017 the Group had 525 members of staff, an increase of almost 100 heads for which there was little or no incremental revenue gain. Splitting the Group back into the component parts allowed us to identify where all the additional headcount was added.

As part of the review it was discovered that previous management had entered into various onerous contracts which created little or no value to the Group, including a single outsourced service contract that was costing the Group more than £1.0 million a year and which has only generated net cost savings of £50,000. This contract, alongside others, was signed without due process or compliance with the Group's authority limits. I am pleased to say that in December 2018 we reached a settlement in relation to this contract which will result in a saving of c.£3.0 million over the next three years.

Further investigation into the state of the Company's finances led to a further fundraising of £5.55 million by way of the issue of new equity and zero coupon, unsecured, convertible loan notes ("CLNs") which completed in August 2018. At the same time the £2.0 million loan notes which were issued in May 2018 were repaid; £0.75 million by way of the issue of equity with the remaining £1.25 million reissued as CLNs. The additional funding allowed the Group to continue restructuring with the aim of right-sizing the business to enable the Group to trade profitably.

Having explored various options with respect to the disposal of one or more of the component parts of the business, in October 2018 the Company announced the completion of the strategic and operational review and the disposal of 365 ITMS Limited (the "Sale"), further detail of which can be found below.

It was at this point that I became interim Executive Chairman in order to assist with the Group's restructure. Our focus as a Board was now on right-sizing the Group to enable it to trade profitably. To that end, a total of £7.2 million of annualised staff cost reductions were implemented throughout 2018, along with other operational cost savings including, *inter alia*, a reduction in software licencing costs and property costs and, most significantly, the settlement of the outsourced service contract as detailed above.

Chairman's Statement (*continued*)

Following the Sale, the Group's remaining two trading businesses are IDE Group Manage Limited ("Manage") and IDE Group Connect Limited ("Connect"). Manage provides traditional people-based managed services, including service desk and remote technical support, project management and delivery, onsite and field-based engineering and device lifecycle services, the latter from our IL3 certified Lifecycle facility in Dartford. There is considerable capacity within this facility, and we see this as an opportunity for growth. Connect provides network services and data centre hosting services. A significant number of customers take services from both businesses and therefore we believe there remains the opportunity to upsell to our current customer base as well as growing by bringing new customers on board.

Sale of 365 ITMS Limited

On 15 October 2018 the Company announced the sale of 365 ITMS Limited ("365 ITMS") to PTCA Newco Limited ("PTCA"), a newly incorporated company owned by certain members of the management team within 365 ITMS, on a cash free, debt free basis with a normalised level of working capital.

365 ITMS was acquired by the Group in April 2017 and provides a range of complementary data centre, network, security and cloud services. The consideration for the Sale was £2.8 million, payable in cash.

In addition, as part of the Sale, certain assets including contracts and staff relating to PACT, the Group's business unit focused on cyber security which was established in 2017, were transferred to 365 ITMS for cash consideration of £0.2 million which was paid by 365 ITMS to the Group upon completion of the Sale. The proceeds of the Sale were used to reduce the Company's net debt.

Board Changes

There were wholesale changes to the Board during the year, starting with Jonathan Watts stepping down from his position as Chairman in January 2018 at which time Bill Dobbie stepped up as interim Chairman. Jonathan's departure was followed by Andy Ross' resignation as Chief Executive Officer in March 2018 at which time Julian Phipps, the Chief Financial Officer, also took on the role of Chief Operating Officer. Following a review of the Group's financial position, at the end of May 2018, when the Company announced the issue of £2.0 million of unsecured loan notes, Ian Smith was appointed as Executive Director to lead the Group's strategic and operational review, simultaneously with Julian Phipps stepping down from his position on the Board. MXC Capital Markets LLP, a subsidiary of MXC, was also appointed as financial adviser.

In August 2018, I joined the Board as a Non-Executive Director. Also in August 2018, at the time of the £5.55 million further fundraising, Katherine Ward stepped down from her position of Non-Executive Director. In October 2018, Bill Dobbie stepped down from the Board at which point I became Non-Executive Chairman and Max Royde, co-founder of Kestrel Partners LLP, was appointed as a Non-Executive Director. Kestrel Partners LLP are a significant shareholder of the Company. Finally, in October 2018 when the Company announced the sale of 365 ITMS and the completion of the strategic and operational review, I became interim Executive Chairman in order to lead the restructuring of the Group.

The Board has been supported through these tumultuous times by an interim Chief Financial Officer and the management team within the business. We recognise that the current structure of the Board is not ideal from a corporate governance perspective but believe that we have the skills and experience to best lead the Group at this current time. That said, we are looking to add an independent Non-Executive Director to the Board and intend to further enhance the Board with appropriate executive appointments to lead the Group through its next stage of development.

Trademark Dispute

In July 2017, the UK Intellectual Property Enterprise Court ruled that the CORETX brand (the Group's former trading brand) infringed a pre-existing trademark. The previous leadership appealed against the decision, which the Court of Appeal did not permit. Consequently, the Group had to re-brand to IDE Group incurring significant cost in doing so. In February 2018, a claim for significant damages was received from Coreix Limited, the party who brought the brand infringement claim. Despite the previous leadership asserting that Coreix Limited's claim should not exceed £10,000, on 29 May 2018 the Group reached a full and final settlement with Coreix Limited, under which the Group had to pay damages of £250,000 over the course of 10 months, plus costs of £3,000 relating to a court hearing. As the previous leadership had believed that the claim would be under the excess amount for insurance purposes, the insurance company was not informed within the appropriate time limit and hence the Group was unable to claim under its policy, meaning that the settlement agreement resulted in a significant cash outflow for the Group.

Chairman's Statement *(continued)*

Bank Refinancing

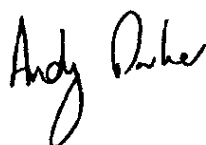
Throughout the difficulties that faced IDE during 2018, the Group's bankers, National Westminster Bank plc ("Natwest"), remained supportive of the Company. The proceeds of the 365 ITMS Sale were used to reduce IDE's level of debt, however, at the end of the year the Group's remaining revolving credit facility of £4.75 million was fully drawn and the Group had £0.6 million headroom on its £3.5 million overdraft facility (the "Facilities"). In order to provide additional, secure and longer-term funding to replace the Facilities, on 10 January 2019 the Company announced that it proposed to raise £10.0 million by way of an issue of secured loan notes ("Loan Notes") in two tranches. Under the first tranche, £5.3 million of Loan Notes were subscribed for by two existing shareholders of the Company, MXC and Blake Holdings Limited, a company controlled by Richard Griffiths, a significant shareholder in the Company. The second tranche of £4.7 million was made available to all other shareholders by way of an open offer and was fully underwritten by MXC; in the end £1.0 million was taken up by other shareholders with the remaining £3.7 million subscribed for by MXC. The proceeds of the issue of the Loan Notes were used to fully repay the Facilities and provide additional working capital for the Group. With the issue of the Loan Notes, the Group now has no external debt other than with key shareholders and has longer-term funding, thereby affording security for all the Group's stakeholders.

Outlook

As a result of the actions taken during 2018, we ended the year in a much stronger position than we started it with a strong leadership team, an appropriate cost base and clear focus on operational execution and customer service to drive increased profitability and cash generation. The refinancing, which was completed post year end, has provided long term funding and means that the Company has no other external debt, as the Loan Notes are held solely by shareholders, and predominantly by the largest shareholders.

I would like to thank the management and staff for their continued support and resolve to deliver value to our customers during what has been a challenging year. Despite the incredible pressure they have found themselves under, they have behaved impeccably and, in many cases, have gone above and beyond to support the Group and service customers in the most difficult of circumstances.

With the upheaval of last year behind us, we are now focused on driving the core activities necessary to support our customers and rebuild value for shareholders. Towards the end of the year, several of the Group's material customers renewed their contracts with IDE, some on a multi-year basis, and at the time of writing, the pipeline of opportunities across the business both with existing and new customers and partners is the strongest it has been since my involvement. I am also pleased to report that the Group has been trading profitably at an Adjusted EBITDA level in the year to date. We are confident our strategy is on track and look forward to reporting continued progress throughout the current year.



Andy Parker
Executive Chairman
24 July 2019

Financial Review

New IFRS Implementation

These are the first full year results which are presented by IDE following the adoption of IFRS 9 and 15. The adoption of both IFRS 15 and IFRS 9 has not resulted in restatements but has resulted in additional disclosure.

IFRS 15 standard sets out revenue recognition requirements, and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the Group's contracts with customers. The standard requires entities to apportion revenue earned from contracts to performance obligations on a relative stand-alone basis, based on a five-step model. Having undertaken a review of all the services and products the Group provides, and the main types of commercial arrangements used with each service and product, the Group has concluded that the implementation of the new standard has not resulted in a change in the revenue recognition accounting policies of the Group. Therefore, following implementation of IFRS 15, there was no impact of transition on retained earnings at 1 January 2018, on the Group's statement of financial position as at 31 December 2018, on its consolidated income statement, its consolidated statement of other comprehensive income, or on the cash flows for the period to 31 December 2018.

IFRS 9 introduces principle-based requirements for the classification of financial assets, using the following measurement categories: (i) Amortised cost; (ii) Fair value through Other Comprehensive Income with cumulative gains and losses reclassified to profit or loss upon derecognition; and (iii) Fair value through profit or loss. IFRS 9 also introduces a new impairment model, the expected credit loss model. The Group now reviews the amount of credit loss associated with its trade receivables based on forward looking estimates that consider current and forecast credit conditions as opposed to relying on past historical default. The Group undertook an assessment of how the adoption of IFRS 9 would impact the Group's financial instruments. The key area that was identified across the business was the bad debt provisioning because of the implementation of the expected credit loss model and it was concluded that no restatement was required.

Results for the Year – Continuing Operations

The Group reported total revenues from continuing operations of £41.1 million in the year to December 2018, down from £53.7 million in the year to 31 December 2017 and gross profit of £6.6 million (2017 restated: £15.9 million). The results for the year ended 31 December 2017 have been restated to reflect the change in allocation of certain salary costs which are directly attributable to the provision of services from administrative expenses to cost of sales. Gross margin decreased from 30% in 2017 (restated) to 16% in the year under review. A contributing factor to this decrease in margin was an increase in provisions for onerous contracts amounting to £1.9 million, further detail of which can be found below.

In our managed services division, a large proportion of managed services revenue recorded in 2017 arose from one-off projects, which came to an end either in 2017 or early 2018 resulting in a decrease in overall revenue in that division; £16.5 million from continuing operations in the year to 31 December 2018 vs £23.0 million in 2017. Cost of sales in 2018 were 6% higher as a % of revenue than in 2017 due to the inclusion of the total cost of an onerous outsourced supply contract, whereas in the year to 31 December 2017 the majority of this cost was classed as exceptional. In the interim results to 30 June 2018 (the "Interim Results"), a provision of £2.2 million was recognised in relation to this contract, however, the contract was settled in December 2018 therefore the provision has been utilised with the excess provision released and there are no longer any costs associated with this contract going forward.

In our cloud and hosting division, revenue slightly decreased to £10.2 million compared to £10.7 million due to certain contracts coming to an end during the year. Cost of sales of £10.1 million were significantly higher compared to last year (2017 restated: £7.0 million) due in part to an increase of £1.3 million in the provision relating to a colocation contract following a review of the utilisation of this contract. The resulting gross profit for this division was £0.2 million (2017 restated: £3.7 million).

Networks revenue was £7.3 million for the year (2017: £8.7 million) with the decrease compared to last year due to certain customer contracts finishing during the year, with gross profit of £0.7 million (2017 restated: £2.2 million). The decrease in gross profit can be attributed to, *inter alia*, a £0.6 million increase in the provision relating to a fibre supply contract and the fact that when customer contracts come to an end, the associated costs often do not cease coterminously.

Projects revenue was down £4.2 million to £7.0 million (2017: £11.2 million), although gross margin remained relatively stable at 33% (2017 restated: 35%).

Financial Review (*continued*)

Results for the Year – Continuing Operations (*continued*)

Administrative expenses excluding impairment from continuing operations were £19.2 million (2017 restated: £19.3 million) within which were £2.4 million of exceptional costs (2017: £1.2 million). Exceptional costs include costs relation to the reduction in headcount which took place during the year as well as costs relating to the trademark dispute as detailed in the Chairman's Statement. Over £1.3 million of previously capitalised staff costs were impaired through administrative expenses. In addition, administrative expenses included a charge of £3.3 million for the amortisation of intangible assets (2017: £3.1 million), depreciation of tangible fixed assets of £2.8 million (2017: £3.0 million) and a loss on disposal of fixed assets of £0.4 million (2017: £0.1 million).

The Group uses Adjusted EBITDA which is a non-GAAP measure of performance as it believes this more accurately reflects the underlying performance of the business. This is one of the key operational performance measures monitored by the Board. Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, impairment charges, exceptional items, loss on disposal of fixed assets and share-based payments. The Adjusted EBITDA loss for the year from continuing operations was £3.9 million (2017: profit £4.1 million). A major contributor to this loss was the increase in provisions for onerous supply contracts and property amounting to £3.5 million. Furthermore, though costs were significantly reduced during 2018, the savings were staggered throughout the year hence for part of the year the Group's cost base was disproportionate to its revenue. The trading performance of the Group improved in the second half of the year once the cost savings started to come through.

At the time of the Interim Results, impairment charges totalling £27.5 million were recognised in relation to goodwill and intangible assets resulting from the acquisitions of IDE Group Manage (formerly Selection Services) and 365 ITMS to reflect what the Directors believed at the time to be the then current fair values of these businesses. However, given the restructuring which took place in the second half of the year and the improving performance of IDE Group Manage, the Board has reassessed the value of IDE Group Manage and reversed £13.7 million of impairment in relation to customer contracts which was recognised at the time of the Interim Results. Furthermore, 365 ITMS was sold in October 2018 hence the £4.0 million impairment charge relating to goodwill arising from the acquisition of 365 ITMS, which had been recognised at the time of the Interim Results, has been included in discontinued operations.

At the time of the Interim Results, no impairment charge was recognised in relation to the goodwill arising from the acquisition of IDE Group Connect (formerly C4L), however, a review at the end of the year resulted in an impairment charge of £6.9 million. The resulting net impairment charges for the year ended 31 December 2018 were £17.5 million (2017: £9.3 million). These significant charges have been a major contributor towards the operating loss in relation to continuing operations of £30.2 million (2017: £12.7 million).

After incurring net finance costs of £0.4 million (2017: £0.3 million), the loss before tax on continuing operations was £30.5 million (2017: loss of £13.0 million).

The utilisation of tax losses and a deferred tax credit arising on the amortisation of intangible assets has resulted in a tax credit for the year of £0.6 million (2017: £1.6 million).

The Group therefore reported a loss after tax from continuing operations of £29.5 million (2017: loss of £11.4 million), which equates to a basic loss per share from continuing operations of 11.97p (2017: 5.76p).

Discontinued Operations

During the year the Group undertook a strategic and operational review which culminated in the sale of 365 ITMS in October 2018. 365 ITMS was sold to PTCA, a newly incorporated company owned by certain members of the management team within 365 ITMS, on a cash free, debt free basis with a normalised level of working capital. 365 ITMS was acquired by the Group in April 2017 and provides a range of complementary data centre, network, security and cloud services. The consideration for the Sale was £2.8 million, payable in cash. In addition, as part of the Sale, certain assets including contracts and staff relating to PACT, the Group's business unit focused on cyber security which was established in 2017, were transferred to 365 ITMS for a cash consideration of £0.2 million which was paid to the Group by 365 ITMS upon completion of the Sale. The net proceeds of the Sale were used to reduce the Company's net debt.

Financial Review (continued)

Discontinued Operations (continued)

From 1 January 2018 to the date of sale, 365 ITMS and PACT generated revenues of £10.4 million (2017: £11.2 million) and Adjusted EBITDA of £0.6 million (2017: £1.0 million). The previously reported figures for 2017 included 9 months' contribution from 365 ITMS from the date of acquisition and 6 months' contribution from PACT which was established in June 2017. After all costs, including a £4.0 million impairment charge relating to the original acquisition of 365 ITMS and the £0.7 million profit on disposal arising from the sale, the loss after tax from discontinued operations for the year ended 31 December 2018 amounted to £3.2 million (2017: profit of £0.2 million).

Statement of Financial Position

The Group had property, plant and equipment at 31 December 2018 of £9.8 million (2017: £13.0 million). Intangible assets of £27.4 million at the year-end (2017: £55.4 million) related predominantly to customer contracts. As detailed above, net impairment charges relating to continuing operations of £17.5 million were recognised in the year, principally in relation to the goodwill arising on the acquisitions of Selection Services and C4L.

Trade and other receivables of £8.9 million (2017: £15.2 million) include trade receivables of £6.4 million (2017: £8.6 million), a decrease of 26% reflecting the drop in turnover, and includes an expected credit loss provision of £0.7 million (2017: £0.4 million).

Trade and other payables, excluding deferred income, amounted to £7.7 million (2017: £15.4 million), including trade creditors of £4.9 million (2017: £8.8 million) and accruals of £1.8 million (2017: £5.0 million). Deferred income, arising from customers invoiced in advance of services delivered, amounted to £3.0 million (2017: £6.7 million). A review of the utilisation of the Group's onerous contracts, primarily relating to property and supplier contracts, resulted in a net increase in provisions of £1.5 million to £3.2 million (2017: £1.7 million).

Cashflow, Funding and Debt

Cash used in continuing operations during the year was £6.3 million (2017: inflow of £3.8 million) with net cash generated from discontinued operations of £2.4 million. There was a significant decrease in trade and other payables of £7.6 million (2017: increase of £0.5 million) and a decrease in trade and other receivables of £2.3 million (2017: increase of £1.9 million).

There was a net cash inflow during the year of £2.6 million relating to the disposal of 365 ITMS and the PACT business, being the £3.0 million total consideration for the two businesses less working capital adjustments of £0.4 million.

In May 2018, IDE issued £2.0 million of unsecured loan notes with an annual coupon of 10% to support the Group during the strategic and operational review. In August, the Company announced a further fundraising of £5.5 million to be effected by the issue of both equity and convertible loan notes. The convertible loan notes are unsecured, have a term of 5 years, carry no interest and are convertible into ordinary shares in the capital of IDE ("Ordinary Shares") at a price of 2.5 pence per Ordinary Share ("CLNs"). To that end, £1.8 million was raised by the issue of CLNs and £3.75 million was raised by the issue of new Ordinary Shares at price of 2.5 pence per share. At the same time, the £2.0 million of loan notes which were issued in May 2018 were repaid; £1.25 million by way of the issue of new Ordinary Shares at a price of 2.5 pence per share and £0.75 million by way of the issue of CLNs. At 31 December 2018, the Group had £2.55 million CLNs in issue (2017: £nil), with a fair value of £2.55 million, split into an equity component (£0.97 million) and a debt component (£1.58 million) as detailed in note 24.

As at 31 December 2018 the Group had a net overdraft position of £2.9 million (2017: £1.5 million), finance lease liabilities of £0.7 million (2017: £0.8 million) and £4.75 million (2017: £7.5 million) was due under the RCF facility. The net proceeds of the 365 ITMS Sale along with £0.16 million of existing cash resources were put towards reducing the RCF from £7.5 million to £4.75 million in October 2018.

Post year end, on 10 January 2019 the Company announced that it proposed to raise £10.0 million by way of an issue of secured loan notes ("Loan Notes") in two tranches; one in January 2019 and the second in March 2019. The Loan Notes have a term of 6 years and an annual coupon of 12% which is compounded and payable at the end of the term. The proceeds of the issue of the Loan Notes were used to fully repay Natwest and provide additional working capital for the Group. With the issue of the Loan Notes, the Group now has no external debt other than with its major shareholders and has longer-term funding, thereby affording security for all the Group's stakeholders.

Financial Review (continued)

Dividend

The Directors do not propose a dividend in respect of the current financial year (2017: £nil).

Update and Outlook for 2019

Following the major cost reduction programme undertaken in 2018, the Group ended the year in a much stronger position than it started it with a strong leadership team, an appropriate cost base and clear focus on operational execution and customer service to drive increased profitability and cash generation. The refinancing, which was completed post year end, has provided long term funding and means that the Company has no external debt, as the Loan Notes are held solely by shareholders, and predominantly by the largest shareholders.

Since the year end there has been a marked improvement in the pipeline of opportunities across the business both with existing and new customers and the Group has been trading profitably at an Adjusted EBITDA level in the year to date. The Board remains confident of the Group's future prospects.

Going Concern

The Directors have prepared detailed cash flow projections; these projections, reasonably taking into account possible changes in trading performance and the timing of key strategic events, show the Group should be able to operate within the level and conditions of available funding. Furthermore, taking into account the support of certain of the Company's significant shareholders, of which two are represented on the Board, as demonstrated by the refinancing at the beginning of the year, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

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

Strategic Report

Review of the Business

A detailed review of the business is set out in the Chairman's Statement and the Financial Review. Included in these reviews are comments on the key performance indicators that are used by the Board on a monthly basis to monitor and assess the performance of the business. These indicators include the level of revenue, gross profit and Adjusted EBITDA* together with net debt. The year under review was a challenging one for the business and therefore performance against KPIs was significantly impacted with no growth shown in any category. Future developments and current trading and prospects are set out in the Chairman's Statement and the Financial Review. These reports together with the Corporate Governance Statement are incorporated into this Strategic Report by reference and should be read as part of this report. The Group's strategy is focused on maximising value for stakeholders by increasing revenues and profits by upselling to our current customer base as well as by bringing new customers on board.

At 31 December 2018, the Board comprised three Directors (2017: five); all of which are male (2017: four male, one female). At 31 December 2018, the Group had 303 employees (including Directors) (2017: 525), of which 232 (2017: 416) are male and 71 (2017: 109) are female.

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

Principal Risks and Uncertainties

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

The Group maintains a business risk register which is reviewed by the Board on a bi-annual basis. Each risk has an owner on the Group's executive committee and is assigned a consequence and probability value, multiplied to give a risk value. The impact, measures in place and tactics to mitigate risks are assessed on a regular basis. The risk categories, set out below, have been identified by the Board as those currently considered to potentially have the most material impact on the Group's future performance. In addition to these risks, note 26 contains details of financial risks.

Market and Economic Conditions

Market and economic conditions are recognised as one of the principal risks in the current trading environment. The risk is mitigated by the monitoring of trading conditions and changes in government legislation, the development of action plans to address specific legislative changes and the constant search for ways to achieve new efficiencies in the business without impacting level of service. During the year, the Group updated its processes and procedures to ensure it was compliant with the General Data Protection Regulation legislation and liaised with its clients and suppliers who were also affected by the legislation.

Exit of UK from European Union

The UK has voted in an advisory referendum to leave the European Union (commonly referred to as "Brexit"). Whilst negotiations between the UK and the European Union continue the actual date and impact of Brexit is not yet clear, but it may significantly affect the fiscal, monetary and regulatory landscape in the UK, and could have a material impact on its economy and the future growth of its various industries. Depending on the exit terms negotiated between EU Member States and the UK following Brexit, the UK could lose access to the single European Union market and the global trade deals negotiated by the European Union on behalf of its members. The UK could, however, correspondingly acquire the right to secure additional trade deals with non-EU countries and with the EU itself. Such a change in trade terms could affect the attractiveness of the UK as an investment centre and, as a result, could have a detrimental or positive effect on UK companies and financial markets. Although it is not possible to predict fully the effects of an exit of the UK from the European Union, it could have a material effect on the business, financial condition and results of operations of the Group. The Group pays attention to the progress and direction of the negotiations and will take any actions open to it to mitigate any risk as the impact becomes clearer. The Group has also discussed the potential impact of "Brexit" with a number of key clients who will be directly affected, to ensure its services are relevant in the future economic environment, however, from these discussions, the Group does not expect to have to make significant changes or incur significant disruption as a consequence.

Strategic Report *(continued)*

Principal Risks and Uncertainties *(continued)*

Reliance on Key Personnel and Management

The success of the Group is dependent on the services of key management and operating personnel. The Directors believe that the Group's future success will be largely dependent on its ability to retain and attract highly skilled and qualified personnel and to train and manage its employee base. During the year, a restructuring programme was undertaken which resulted in many members of staff being made redundant and other members of staff moving into new roles. For those who remain there are a number of employee benefits and active communication is encouraged within the business to mitigate the risk of losing skilled and qualified individuals. Furthermore, there is an apprenticeship scheme which the Group believes will assist in training and retaining younger individuals going forward.

Competition

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

Technology

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

Infrastructure Failure

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

Strategy

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

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

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

Strategic Report *(continued)*

Strategy *(continued)*

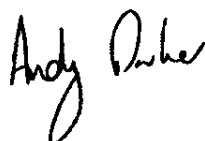
Through these differentiators, the Group aims to attract new customers and to deepen and broaden the relationship with existing customers. The Board's strategy for growth comprises:

- Ongoing investment in expanding and enhancing our own infrastructure so that we can provide our customers with the very highest level of security and service;
- Maximise the levels of revenue from our wide ranging customer base through high levels of service and a varied product and service set; and
- Efficient use of our scale and resources to explore and invest in new technologies so that our customers can benefit from the high levels of innovation across the whole industry.

The Group would also consider acquisition opportunities within the sector which would offer synergies and complementary or additive products and services. Our acquisition criteria are strict and mean that we would only consider buying a business which is similar to our own, would increase earnings, have high recurring revenues and would not over-leverage the Group.

Despite the obvious difficulties experienced in 2018, the Board believes that the Group's position between the very large system integrators and network operators and the smaller competitors that may lack delivery structure, reputation, reliability and financial strength remains a very compelling one. The Group has a strong and reliable set of core infrastructure and has developed a delivery model that provides assurance and certainty for customers. This underlying platform is the core strength of the Group and the Group will continue to consider augmenting its underlying organic growth with acquisitions to leverage this platform, should there be a compelling strategic and financial case.

On behalf of the Board



Andy Parker
Executive Chairman
24 July 2019

24 Dublin Street
Edinburgh EH1 3PP

Directors' Report

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2018 for IDE Group Holdings plc ("IDE" or the "Company") and its subsidiaries (together, the "Group").

Principal Activity

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

Review of the Year

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

Dividends

The Company did not pay a dividend during the year ended 31 December 2018 (2017: £nil). The Directors do not recommend the payment of a dividend at 31 December 2018 (2017: £nil).

Directors

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

Jonathan Watts (resigned 9 January 2018)
Andrew ("Andy") Ross (resigned 22 March 2018)
Julian Phipps (resigned 30 May 2018)
William ("Bill") Dobbie (resigned 5 October 2018)
Katherine Ward (resigned 20 August 2018)
Ian Smith (appointed 1 June 2018)
Andy Parker (appointed 10 August 2018)
Matthew ("Max") Royde (appointed 5 October 2018)

Company Secretary

Julian Phipps (resigned 11 July 2018)
Delgany Corporate Services Limited (appointed 11 July 2018)

A brief biography of the current Directors can be found below:

Andy Parker – Executive Chairman

On 10 August 2018 Andy was appointed as Non-Executive Director, on 5 October 2018 was appointed as Non-Executive Chairman and on 15 October 2018 became Executive Chairman.

Andy is an experienced commercial, operational and financial professional. A chartered accountant, Andy has held a wide range of commercial and finance roles culminating most recently in his tenure as Chief Executive Officer of Capita Group plc, the FTSE 350 professional support services company. Andy has held a number of finance director roles during his career and is a highly experienced public markets board director.

Andy is the Chair of the Audit Committee and a member of the Remuneration Committee.

Directors' Report *(continued)*

Ian Smith – Executive Director

On 1 June 2018, Ian was appointed as Executive Director.

Ian has an extensive track record of investing in and managing technology companies and is co-founder and CEO of MXC Capital Limited. Ian has sat on numerous boards and either led or been involved in a large number of transactions in the TMT sector. Ian led strategic change and value accretion at Redstone plc and Accumuli plc and was previously deputy executive chairman and CEO at Castleton Technology plc.

Ian holds no direct beneficial interest in IDE Group, however, is CEO and a substantial shareholder of MXC Capital Limited, a substantial shareholder and loan note holder in the Company.

Ian is a member of the Remuneration Committee and the Audit Committee.

Max Royde - Non-Executive Director

On 5 October 2018, Max was appointed as Non-Executive Director.

Max is an experienced company director and co-founder of Kestrel Partners LLP, a London based fund management business whose clients are significant shareholders of IDE Group. He is a fund manager of Kestrel Opportunities and has been advising and investing in UK smaller companies since 1998. Max is also a non-executive director of Ingenta plc.

Max is Chair of the Remuneration Committee and a member of the Audit Committee.

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

Andy Parker, Ian Smith and Max Royde retire in line with the terms of the articles of the Company and being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Directors' Service Contracts

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

Directors' Interests

The interests of the Directors at the end of the year in the ordinary shares of the Company at 31 December 2018, together with their interests at 31 December 2017 were as follows:

	Number of ordinary shares	
	31 December 2018	31 December 2017
Andy Parker	-	-
Ian Smith*	-	-
Max Royde**	-	-

* Ian Smith is Chief Executive Officer and a substantial shareholder of MXC Capital Limited which as at 31 December 2018 held 172,811,125 ordinary shares (31 December 2017: 42,160,000 ordinary shares)

** Max is co-founder of Kestrel Partners LLP, whose clients held in total 36,497,252 ordinary shares as at 31 December 2018 (31 December 2017: 35,577,206 ordinary shares)

Directors' Report (continued)

Substantial Shareholders

At 31 December 2018 and at 3 July 2019, being the latest practicable date before the publication of the Annual Report, the Company is aware of the following significant interests in its ordinary, voting share capital:

	31 December 2018	31 December 2018	22 July 2019	22 July 2019
Shareholder name	Number	%	Number	%
MXC Capital Limited ¹	172,811,125	43.1	172,811,125	43.1
Bill Dobbie ²	56,061,817	14.0	56,026,117	14.0
Richard Griffiths	40,003,815	9.9	40,003,815	9.9
Kestrel Partners LLP ³	36,497,252	9.1	36,497,252	9.1
LMS Capital	17,137,007	4.3	18,161,835	4.5
Matt Hawkins ⁴	16,370,627	4.1	16,370,627	4.1
Coltrane Master Fund L.P.	14,268,552	3.6	n/a	Below 3%

1. MXC Capital Limited is a related party; Ian Smith, Executive Director, is Chief Executive Officer and a substantial shareholder of MXC Capital Limited
2. Former Director of the Company
3. Max Royde, Non-Executive Director of the Company is co-founder of Kestrel Partners LLP
4. Former Director of the Company

Political Donations

The Group and Company have not made any political donations in the year ended 31 December 2018 (2017: nil).

Auditors

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

Financial Risk Management Objectives and Policy

The Company's financial risk management objectives and policies are described in note 26 to the financial statements. The key objectives are:

Cash flow risk

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

Borrowings at variable rates expose the Group to cash flow interest rate risk. During the year ended 31 December 2018, the Group's borrowings at variable rate were denominated in Pounds Sterling with interest linked to Sterling interest rates. Post year end, these borrowings were repaid and replaced with loan notes with a fixed rate of interest.

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

Price risk

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

Credit risk

Credit risk is managed at a subsidiary level. Credit risk arises from cash and cash equivalents as well as credit exposures to customers, including outstanding receivables. Individual risk limits are set based on internal and external ratings and reviewed by management. The utilisation of credit limits is regularly monitored with appropriate action taken by management in the event of the breach of a credit limit. The Group has applied the simplified approach applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customers with different credit risk profiles and current and forecast trading conditions. The Group has recognised a provision in respect of trade receivables of £0.7 million (2017: £0.4 million).

Directors' report *(continued)*

Financial Risk Management Objectives and Policy *(continued)*

Liquidity risk

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

Disclosure of Information to the Auditors

Each of the Directors who were in office on the date of approval of these financial statements, having made enquiries of the fellow Directors, confirms that:

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

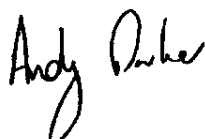
Subsequent Events

Full details of post balance sheet events are included in note 32 to the consolidated financial statements.

Future Developments

Future developments and current trading and prospects are set out in the Executive Chairman's Statement and the Financial Review.

On behalf of the Board



Andy Parker
Executive Chairman
24 July 2019

24 Dublin Street
Edinburgh

Remuneration Committee Report

Remuneration Committee

At 31 December 2018, the Remuneration Committee comprised Max Royde (Chair), Ian Smith and Andy Parker.

The Remuneration Committee is responsible for determining and agreeing with the Board the framework for the remuneration of Executive Directors and other designated senior executives and, within agreed terms of reference, determining the total individual remuneration packages of such persons, including, where appropriate, bonuses, incentive payments and share options or other share awards. The remuneration of Non-Executive Directors is a matter for the Executive Directors. No director is involved in any decision as to his or her own remuneration or benefits.

Remuneration Policy

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

Basic Salary and Benefits

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

Performance Related Bonus

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

Fees

The Board, within the limits stipulated by the Articles of Association and following recommendations by the Executive Directors, determines Non-Executive Directors' fees. The annual fees are £30,000 (2017: £30,000) for a Non-Executive Director and £50,000 for the Non-Executive Chairman. Jonathan Watts stepped down from the board in January 2018 and was paid in lieu of notice. In 2017 Katherine Ward received an additional £5,000 for chairing the Audit and Remuneration Committees and Jonathan Watts received private medical cover for himself and his spouse.

Directors' emoluments

For Directors who held office during the year, emoluments for the year ended 31 December 2018 were as follows:

	Salary/fees £	Benefits £	Pension £	2018 total £	2017 total £
Executive					
Andy Ross	130,967	525	9,652	141,144	269,632
Julian Phipps	85,850	525	6,495	92,870	193,320
Ian Smith ¹	29,167	-	-	29,167	-
Andy Parker	38,469	-	-	38,469	-
Non-Executive					
Jonathan Watts	16,668	-	-	16,668	52,935
Bill Dobbie	20,000	-	-	20,000	30,000
Katherine Ward	23,334	-	-	23,334	35,000
Max Royde ²	7,177	-	-	7,177	-
Total	351,632	1,050	16,147	368,829	580,887

1. Directors emoluments in respect of Ian Smith were paid to MXC Advisory Limited, a subsidiary of MXC Capital Limited
2. Directors emoluments in respect of Max Royde were paid to Kestrel Partners LLP

Remuneration Committee Report *(continued)*

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



Max Royde
Chair, Remuneration Committee
On behalf of the Board

24 July 2019

Corporate Governance Statement

Since September 2018 all AIM companies have been required to comply with a recognised Corporate Governance Code and to disclose how the governance code has been implemented or to explain any areas of departure from its requirements. IDE carefully reviewed and then resolved to apply the Quoted Companies Alliance Corporate Governance Code ("QCA Code") published in April 2018 which is constructed around 10 broad principles. This report sets out our approach to the QCA Code and governance. Our compliance with the 10 principles is also available to view on the Company's website: www.idegroup.com.

Principle 1 – Establish a strategy and business model which promote long-term value for shareholders.

The Board undertook a strategic and operational review between January and October 2018 (the "Strategic and Operational Review"). This resulted in a revised business model and strategy which are set out in the Strategic Report on page 10. The Chairman's Statement on page 3 and Financial Review on page 6 provide information of how the Company performed against its stated strategy. The Strategic Report includes information on the Principal Risks and Uncertainties faced by the Company in 2018 and how the Company has acted to reduce its exposure to risk. The Board's objective is to secure the long-term success of the Company by establishing a sustainable and profitable operating model with an appropriate underlying cost base in order to create long-term value for shareholders and stakeholders alike.

The Strategic and Operational Review included a fundraising to secure the Company's working capital needs and the sale of 365 ITMS, one of the Group's subsidiaries, together with the PACT business for a total cash consideration of £3 million (the "Sale"). Following the Sale, the Group's remaining trading companies are IDE Group Manage Limited, which provides outsourced IT services, including 1st, 2nd and 3rd line IT support and network-based solutions, and IDE Group Connect Limited, which provides network services and data centre hosting services. Significant work has been put into a cost reduction programme within the remaining operations with a focus on right-sizing the Group to enable it to trade profitably. This has now been completed and the Company is focused on growing its existing businesses in order to increase value for shareholders. The Board will continue to monitor its progress against its revised stated strategy.

Principle 2 – Seek to understand and meet shareholder needs and expectations.

IDE is committed to open communication with all its shareholders.

Copies of the Annual Report and Accounts are issued to all shareholders who have requested them and copies are available on the Group's investor website www.idegroup.com. The Group's interim results are also made available on the Group's website. The Group makes full use of its investor website to provide information to shareholders and other interested parties.

The Board reviews proxy voting reports and any significant dissent is discussed with relevant shareholders and, if necessary, action is taken to resolve any issues. In compliance with best practice, the level of proxy votes (for, against and vote withheld) lodged on each resolution is declared at all general meetings and in future will be announced.

Andy Parker, Executive Chairman, and Ian Smith, Executive Director, are primarily responsible for communicating with investors. Meetings via the Company's broker are offered to major institutional shareholders to discuss strategy, financial performance and investment activity immediately after the full year and interim results announcements. The Non-Executive Director is also available to meet with other major shareholders if such meetings are requested. Feedback from such meetings with shareholders is provided to the Board to ensure the Directors have a balanced understanding of the issues and concerns of major shareholders.

Shareholders are given the opportunity to raise questions at the Annual General Meeting and the Directors are available both before and after the meeting for further discussion with shareholders. Representatives of two of the largest shareholders are on the board, being Ian Smith for MXC Capital Limited and Max Royde (Non-Executive Director) for Kestrel Partners LLP. Both Ian and Max have had influence over the restructuring of both the Board and the Group as a whole which has taken place in the year under review and, together with Andy Parker, have lead the strategic direction of the Group since their respective appointments.

The Board receives share register analysis reports to monitor the Company's shareholder base and help identify the types of investors on the register.

Corporate Governance Statement *(continued)*

Principle 3 – Take into account wider stakeholder and social responsibilities and their implications for long-term success.

The Group recognises its employees, customers, suppliers, advisors, banks and shareholders as forming part of the wider stakeholder group. Management identifies key relationships within the business and effort is directed to ensuring these relationships are managed appropriately. Regular reviews are undertaken to ensure any issues are addressed promptly.

The Board reviews its largest clients and suppliers in its Board meetings, and these are identified in packs provided to the Board.

The Company has a good relationship with its NOMAD, broker and other advisers. Feedback from investors is provided by the broker as well as through direct engagement with investors by the Board.

The Group meets frequently with customers and communicates regularly with suppliers. There is a feedback system in place and issues raised can be addressed.

The Group has adopted a Modern Slavery Policy as part of its larger commitment to encourage ethical, social and environmental responsibility. The policy is available to view on the Company's website.

The Group's internal stakeholders are its employees. The Group is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of ethnic origin, religion, political opinion, gender, marital status, disability, age or sexual orientation.

Staff policies

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

The Group gives full and fair consideration to applications for employment for disabled persons, taking into account aptitude and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. This includes, where applicable and possible, the retraining and retention of staff who become disabled during their employment.

The Board believes that its investment in the wider stakeholder network is expected to assist the Company's management in achieving its long-term goals creating an environment of trust and communication which will have positive implications for the long-term success of the Group.

Principle 4 – Embed effective risk management, considering both opportunities and threats, throughout the organisation.

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

The results of the Strategic and Operational Review undertaken throughout much of 2018 have enabled the current Board to identify the most critical risks and challenges facing the business and to take the necessary steps to mitigate these risks by strengthening its control systems and policies where necessary. The revised and refined system of risk management is explained in the Strategic Report under the heading Principal Risks and Uncertainties. The Board has established a risk register which is bespoke to the Group's business. The risk register is reviewed at least twice a year, and the Board considers the appropriateness of the risks identified and the mitigating action taken by management on a risk by risk basis with a particular focus on those deemed most critical.

Corporate Governance Statement *(continued)*

Principle 5 – Maintain the board as a well-functioning, balanced team led by the Chair.

Membership of the Board and information on each member can be found in the Directors' Report. There were significant changes to the Board during the year as the Company underwent its Strategic and Operational Review.

The Board is currently comprised of two Executive and one Non-Executive Director, supported by the interim Chief Financial Officer and other senior managers, and it oversees and implements the Company's corporate governance programme.

Ian Smith is Executive Director, and whilst he holds no beneficial interest in IDE Group, he is the Chief Executive Officer and a substantial shareholder of MXC Capital Limited. Ian is not considered to be an independent director as MXC Capital Limited is a substantial shareholder of the Company. Max Royde was appointed Non-Executive Director in October 2018. As company director and co-founder of Kestrel Partners LLP, a London based fund management business whose clients are significant shareholders IDE Group, Max is not considered to be independent.

As Executive Chairman, Andy is responsible for the Company's approach to corporate governance and the application of the principles of the QCA Code. Further details pertaining to the Board and the roles carried out by each member are set out in the Directors' Report.

Each Board member commits sufficient time to fulfil their duties and obligations to the Board and the Company. They attend regular monthly board meetings and join ad hoc board calls and offer availability for consultation when needed. The contractual arrangements between the Directors and the Company specify the minimum time commitments which are considered sufficient for the proper discharge of their duties. However, in exceptional circumstances all Board members understand the need to commit additional time.

Detailed board packs include information on all business units and financial performance and are circulated ahead of Board meetings. Key issues are highlighted and explained, providing Board members with sufficient information to enable a relevant discussion in the Board meeting.

The Board is supported by its Audit Committee and its Remuneration Committee. The number of Board and Committee meetings held throughout the course of the financial year is set out at the end of this Corporate Governance Statement.

Departures from the Code

The Company accepts that having only three directors on the Board, none of whom are independent, is not a long-term solution and is different to the composition of the Board in the previous financial year where there were two independent directors. However, the Group has recently undergone significant change and for the majority of 2018 the focus was on the Operational and Strategic Review, and on implementing the revised strategy for which the current directors, albeit not independent, are fully qualified. The Board recognises the need for at least one independent director and is looking to find appropriate candidates to fulfil that role at which time the composition of the Board committees will be reviewed. In addition, whilst the Board accepts that combining the Chairman and CEO roles is also not a long-term solution, it is considered to be appropriate for the Group at this time. The Executive Chairman is supported by a managing director as well as other members of the management team and the Board expects to appoint a full-time CEO in due course.

Principle 6 – Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities.

The Chairman believes that, as a whole, the Board has a suitable mix of skills and competencies in order to drive the Group's strategy following completion of the Strategic and Operational Review and is best placed to secure the future of the Group and create long-term value for all stakeholders.

The Board consists of two Executive Directors and one Non-Executive Director, none of whom are independent, and comprises three men as set out in the Directors' Report. The nature of the Group's business requires the Directors to keep their skillset up to date which they do by attending industry events and keeping up to date with the latest industry and regulatory publications. Periodic updates to the Board on regulatory matters are given by Company's professional advisers. The Directors' Report identifies the members of the Board and describes the relevant experience, skills and qualities they bring.

Corporate Governance Statement *(continued)*

The Company's financial adviser, NOMAD and lawyers are consulted on any significant matters where the Board believes external expertise is required. For example, external consultants have been engaged to advise on a number of matters including, *inter alia*, an intellectual property trademark issue, the disposal of 365 ITMS and other potential acquisitions and disposals.

External advisers attend Board meetings as invited by the Chairman to report and/or discuss specific matters relevant to the Group and the markets in which it operates. Additionally MXC Advisory Limited provides the services of Ian Smith, Executive Director, and MXC Capital Markets LLP is a retained financial adviser principally focused on acquisitions. Both MXC Advisory Limited and MXC Capital Markets LLP are part of the same group as the significant shareholder MXC Capital Limited.

The Company Secretary, Rose Herbert on behalf of Delgany Corporate Services Limited, advises the Board on corporate governance and regulatory matters, attends the Board meetings and reports directly to the Chairman on governance matters. In keeping with best practice as set out in the QCA guidelines the Company has split the role of Chief Financial Officer and Company Secretary.

Andy Parker and Ian Smith are primarily responsible for communicating with investors.

Departures from the Code

The Board is supported by an interim Chief Financial Officer who is not a member of the Board. The interim Chief Financial Officer, a chartered accountant and investment banker with extensive public company experience, works closely with the Board and is managing financial procedures and controls. The Board believes that, with the support of the interim chief financial officer, its members have sufficient financial experience to manage the Group's financial function. The Company accepts that not having a full time Chief Financial Officer on the Board is not a long-term solution and will seek to appoint a full time permanent financial officer at the appropriate time.

The Board recognises the need for at least one independent director and the benefits it would bring to the board. The Company is looking to find appropriate candidates to fulfil that role and enhance the balance and skillset of the Board.

Principle 7 – Evaluate board performance based on clear and relevant objectives, seeking continuous improvement.

The Board regularly reviews the effectiveness of its performance as a whole as well as that of its committees and individual directors. Effectiveness is reviewed by looking at the Group's performance vs budget as well as by the success of the strategy as set by the Board. The Board meets monthly to review the Group's performance as well as their respective roles.

Board appointments are made after consultation with advisers in all cases and in some cases with major shareholders. The NOMAD undertakes due diligence on all new potential Board candidates. Board members all have appropriate notice periods so that if a Board member indicates his/her intention to step down, there is sufficient time to appoint a replacement, whether internal or external. All Directors who are required to retire by rotation and seek re-election every three years, however, given all current Board members were appointed post the date of the last Annual General Meeting ("AGM"), each current Director will seek re-election at the AGM this year.

Departures from the Code

As part of the Strategic and Operational Review, the need to strengthen the Board was recognised and changes were swiftly implemented with appointments made to add significant commercial, financial and operational experience to the Board overall (as set out in Principle 6 above). This was a priority in 2018 and the Board recognises that a more robust means of evaluating Board performance needs to be adopted going forwards. The evaluation process is currently under review. In the past, a review of the Board has been undertaken by external advisers. The Board will consider using this method of review in future to supplement its own processes.

Corporate Governance Statement *(continued)*

Principle 8 – Promote a corporate culture that is based on ethical values and behaviours.

The Board firmly believes that sustained success will best be achieved by adhering to the Group's corporate culture of treating all our stakeholders fairly and with respect.

Accordingly, in dealing with each of the Company's principal stakeholders, the Board encourages our staff to operate in an honest and respectful manner. The Group's culture of honesty and respect is reflected in the continued support and dedication shown by employees to deliver value to the Group's customers during what has been a most challenging year.

The Board also believes that achieving a common awareness across all employees plays a major role in maintaining good employee relations. The Strategic and Operational Review of the entire business highlighted areas that concerned employees and steps were taken to remedy these concerns, such as more frequent Group-wide communication by management and the Board.

The Company is committed to promoting a culture based on ethical values and behaviours across the business. Policies are in place covering key matters such as bribery, protection of intellectual property and sensitive information, conflicts of interest, whistleblowing and anti-slavery. These are strongly enforced and monitored. Central to the Company's culture and values are Collaboration, Respect, Excellence, Speed, Trust and Accountability, known to the Company's employees as CRESTA. Information about how the Company's beliefs are applied to the business is set out on the website: <https://www.idegroup.com/about/our-people/>.

Staff policies

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

The Group is committed to employment policies, which follow best practice based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The Group gives full and fair consideration to applications for employment for disabled persons, having regard to their particular aptitude and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. This includes, where applicable and possible, the retraining and retention of staff who become disabled during their employment.

Certifications

The Company is proud to have been awarded ISO/IEC 20000-1, ISO 9001, and ISO 27001. Details of these and other certifications are included on the website: <https://www.idegroup.com/about/certification/>.

Principle 9 – Maintain governance structures and processes that are fit for purpose and support good decision-making by the board.

The principle governance structures and processes of the Company and its subsidiaries are the collective responsibility of the Board and its Committees, details of which are set out earlier in this report. At each Board meeting, the Board considers and reviews the trading performance of the Group. The Board has a formal written schedule of matters reserved for its review and approval. These include the approval of the annual budget, major capital expenditure, investment proposals, the interim and annual results and a review of the overall system of internal control and risk management.

There are two standing Board Committees - Audit and Remuneration. Each of these committees acts within defined terms of reference. The roles of the Audit Committee and the Remuneration Committee are set out in the Corporate Governance section of the Company's website as follows: <https://www.idegroup.com/about/investors/corporate-governance/>.

Departures from the Code

The Board recognises that the disclosures on the website with regards to specific individual responsibilities and remits of the directors require development to fully comply with the standards of the QCA Code. This is in the process of being addressed. The Board intends to establish enhanced governance structures and processes that will be appropriate for the Company and are considering any additional governance initiatives required which are required to suit the Group's future plans.

Corporate Governance Statement *(continued)*

Principle 10 – Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The Company reports formally to its shareholders and the market twice each year with the release of its interim and full year results. The full year results are audited by an external firm of auditors.

This report contains full details of all the principal events of the relevant period together with an assessment of current trading and future prospects. The report is made available to the public via the Company's website.

The Company maintains a regular dialogue with stakeholders including shareholders to enable interested parties to make informed decisions about the Group and its performance. The Board believes that transparency in its dealings offers a level of comfort to stakeholders and an understanding that their views will be listened to. This has proved to be of utmost importance during 2018 which was a period of significant change and challenge for the Group. The Board intends to continue its policy of communication for the mutual benefit of the Company, its subsidiaries and their stakeholders.

The Board discloses the result of general meetings by way of announcement and discloses the proxy voting numbers to those attending the meetings. In order to improve transparency, the Board has committed to announcing proxy voting results from the coming Annual General Meeting onwards. In the event that a significant portion of voters have voted against a resolution, the Board intends to disclose the actions it will take to understand the reasons behind the vote.

Attendance at Board and Committee Meetings

Board meetings are held on a monthly basis with additional meetings or conference calls held when required during the year, for example in relation to significant events such as fundraisings. Each of the current Directors has attended every meeting and call since their appointment.

As the current Directors were appointed during 2018, subsequent to the signing of the financial statements for the year ended 31 December 2017, there were no Audit Committee meetings held which the current Directors attended during the year. Post the year end, there have been two Audit Committee meetings in relation to the audit for the year ended 31 December 2018. These meetings were attended by all Audit Committee members.

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing the financial statements, the Directors are required to:

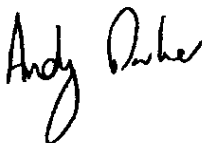
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs, subject to any material departures disclosed and explained in the financial statements;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

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

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

Website Publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.



Andy Parker
Director
On behalf of the Board

24 July 2019

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

Opinion

We have audited the financial statements of IDE Group Holdings plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2018 which comprise the Consolidated Income statement, the Consolidated Statement of Comprehensive Income, Statements of Financial Position for the Group and Parent Company, Statements of Changes in Equity for the Group and Parent Company, Statements of Cash Flows for the Group and Parent Company and notes to the financial statements, including a summary of significant accounting policies.

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

- In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

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

Revenue recognition

Key audit matter

The Group's revenue recognition policy is included within the accounting policies in note 1 and the components of revenue are set out in note 3.

The Group's revenue is a key performance indicator for the market upon which the results of the Group will be assessed.

Across the trading entities within the Group, there are numerous revenue streams that each require different performance obligations to be met in order for revenue recognition to be appropriate. This requires an identification of the Group's obligations and an assessment of revenue amounts applicable to the particular revenue element.

Management exercises judgement in recognising revenue arising from the provision of services where contracts are ongoing at the year-end. Revenue is recognised in accordance with the underlying contracts and may be accrued or deferred based on the contract and dependent on performance obligations for the particular revenue stream.

The implementation of IFRS 15 'Revenue from Contracts with Customers' required management to assess their revenue recognition policies against that standard.

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

Response

We reviewed the revenue recognition policy applied to each of the Group's revenue streams and considered its compliance with IFRS 15 'Revenue from Contracts with Customers'. Our work included review of management's identification of performance obligations and assessment of compliance through review of a sample of material contracts.

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

We tested deferred revenue by re-performing calculations for a sample of deferred balances. We reviewed management's assumptions relating to appropriate revenue deferral for contracts containing multiple performance obligations. Each included review of underlying contracts and other supporting documentation.

Accrued income balances were agreed to supporting documentation such as contracts and evidence of work performed. Where applicable, balances were checked to post year end invoice.

Key observations

Based on the work performed we consider that revenue has been recognised in accordance with the group's revenue recognition accounting policy and the requirements of IFRS 15.

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

Carrying value of intangible assets

Key audit matter

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

In accordance with accounting standards, where indicators have been identified at the end of the reporting period, management have reviewed intangible assets for impairment. Additionally, management have also assessed whether, at the end of the reporting period, previously recognised impairment losses no longer exist or have decreased.

As impairment indicators were identified both during the year and at the year-end, management have estimated the recoverable amount of each asset and made an impairment provision where the recoverable amount is less than carrying value.

At the year-end, management have assessed for further indicators of impairment and reviewed the suitability of past recognised impairments, excluding those recognised in relation to goodwill.

When assessing recoverable amount, management exercises significant judgement.

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

Response

On finite life intangible assets, we have reviewed management's assessment of whether impairment indicators have been identified and performed our own assessment of such based on our knowledge of the Group's business and activities and from discussion with management.

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

At each Cash Generating Unit level, we have evaluated and challenged management's assumptions used in assessing the recoverable amount of the applicable intangible assets, including goodwill.

Our audit of management's models included sensitivity analysis, benchmarking of key assumptions and assessment of discount rates used. In particular, our work focused upon revenue, profit margins and the timing and quantum of future cash flows.

Key observations

Based on our procedures we noted no exceptions and found management's key assumptions to be within a reasonable range. No additional impairments or impairment reversals were identified from the work performed.

Our application of materiality

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

The materiality for the Group financial statements as a whole was set at £440,000 (2017: £320,000). This was determined with reference to the Group's revenue from continuing operations and is set at 1%. Revenue is considered the most appropriate measure in assessing the performance of the Group. Performance materiality was set at 70% (2017: 75%) of the Group materiality level, being £308,000 (2017: £240,000).

Where financial information from components was audited separately, component materiality was set for this purpose at lower levels, varying between £215,000 and £418,000.

The materiality for the Parent Company financial statements was set at £418,000 (2017: £300,000). This was determined with reference to the Parent Company's total assets, but limited to 95% of Group materiality. Total assets are considered the most appropriate measure as the Company's main activity is to hold its investment in its direct subsidiary undertakings. Performance materiality was set at 70% (2017: 75%) of materiality being £292,000 (2017: £225,000).

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of £16,000 (2017: £12,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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

An overview of the scope of our audit

At 31 December 2018, the Group comprised the Parent Company, two main trading companies; IDE Group Manage Limited, and IDE Group Connect Limited; and 14 other entities.

The Parent and the two main trading entities, IDE Group Manage Limited and IDE Group Connect Limited are deemed the significant components of the Group. Full scope audits were carried out for the parent company and the significant components by BDO LLP.

During the year, the Group disposed of 365 ITMS Limited and its subsidiaries. This was not considered a significant component in the current year and therefore audit work has been limited to analytical reviews and cut off procedures.

The remaining entities are either deemed insignificant to the Group, once investment and intercompany balances are eliminated, or are dormant. Each entity is wholly owned by the Group and the results are included in the consolidated financial statements. Audit work on these components has been limited to analytical review carried out by BDO LLP.

Other information

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 25, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Use of our report

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



Simon Brooker (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Reading
United Kingdom
Date: 24 July 2019

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

Consolidated Income Statement
for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £000	Restated** - Year ended 31 December 2017 £000
Continuing operations			
Revenue		41,137	53,745
Cost of sales	2	(34,521)	(37,812)
Gross profit		6,616	15,933
Administrative expenses excluding impairment	3&4	(18,522)	(18,948)
Impairment loss on trade receivables	16	(725)	(380)
Impairment charge on goodwill and intangibles	13	(17,528)	(9,339)
Total administrative expenses		(36,775)	(28,667)
Adjusted EBITDA*		(3,886)	4,137
Exceptional items	6	(2,368)	(1,212)
Depreciation	12	(2,848)	(3,003)
Amortisation	13	(3,290)	(3,090)
Impairment charge on goodwill and intangibles	13	(17,528)	(9,339)
Loss on disposal of fixed assets		(441)	(112)
Charges for share-based payments	29	202	(115)
Operating loss		(30,159)	(12,734)
Finance costs	8	(389)	(291)
Loss on ordinary activities before taxation		(30,548)	(13,025)
Income tax	10	1,089	1,599
Loss for the year from continuing operations		(29,459)	(11,426)
Discontinued Operations			
(Loss) /profit after tax for the year from discontinued operations	7	(3,165)	185
Loss for the year attributable to owners of the parent company		(32,624)	(11,241)
From continuing operations			
Basic loss per share	11	(11.97)p	(5.76)p
Diluted loss per share	11	(11.97)p	(5.76)p
From discontinued operations			
Basic (loss)/ profit per share	11	(1.29)p	0.09p
Diluted (loss)/ profit per share	11	(1.29)p	0.09p

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

** An explanation of the restatement can be found in Note 2 to the financial statements

The notes on pages 38 to 73 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2018

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Loss for the year attributable to the owners of the parent company	(32,624)	(11,241)
<i>Items that are or may be reclassified subsequently to the income statement</i>		
Foreign exchange translation differences	(23)	3
Total other comprehensive (loss)/ income	(23)	3
Total comprehensive loss for the year attributable to the owners of the parent company	(32,647)	(11,238)

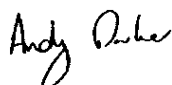
The notes on pages 38 to 73 are an integral part of these financial statements.

Statements of Financial Position

As at 31 December 2018

		Group		Company	
	Note	2018 £000	2017 £000	2018 £000	2017 £000
Non-current assets					
Property, plant and equipment	12	9,836	13,044	-	-
Intangible assets	13	27,395	55,350	-	-
Investments	14	-	-	7,877	7,877
Financial assets	15	-	89	-	-
		37,231	68,483	7,877	7,877
Current assets					
Trade and other receivables	16	8,893	15,177	46	57,653
Inventory	17	-	366	-	-
Cash and cash equivalents	18	-	1,106	5,488	378
		8,893	16,649	5,534	58,031
Total assets		46,124	85,132	13,411	65,908
Current liabilities					
Trade and other payables	19	7,670	15,429	1,651	1,256
Deferred income	20	2,962	6,405	-	-
Borrowings	23	7,800	2,895	4,681	-
Provisions	22	1,514	1,157	50	252
		19,946	25,886	6,382	1,508
Non-current liabilities					
Deferred income	20	13	341	-	-
Borrowings	23	494	7,920	-	7,402
Convertible loan notes	24	1,654	-	1,654	-
Provisions	22	1,705	577	-	-
Deferred tax liabilities	10	3,899	5,115	-	-
		7,765	13,953	1,654	7,402
Total liabilities		27,711	39,839	8,036	8,910
Net assets		18,413	45,293	5,375	56,998
Equity attributable to equity holders of the parent					
Share capital	28	10,020	5,018	10,020	5,018
Share premium		35,439	35,439	35,439	35,439
Equity reserve		967	-	967	-
Retained earnings		(27,863)	4,963	(41,051)	16,541
Foreign currency translation reserve		(150)	(127)	-	-
Total equity		18,413	45,293	5,375	56,998

The notes on pages 38 to 73 are an integral part of these financial statements. The Company made a loss of £57.4 million in the year ended 31 December 2018 (2017: £0.8 million). These financial statements were approved by the Board of Directors on 24 July 2019 and were signed on its behalf by:



Andy Parker
Director

Company registered number: SC368538

Statements of Changes in Equity
for the year ended 31 December 2018

Group	Share Capital (a)	Share Premium (b)	Equity reserve (c)	Retained Earnings (d)	Foreign currency translation reserve (e)	Total equity
	£000	£000	£000	£000	£000	£000
Balance at 1 January 2017	4,773	32,684	-	16,089	(130)	53,416
<i>Total comprehensive loss for the year</i>						
Loss for the financial year	-	-	-	(11,241)	-	(11,241)
Movement in foreign currency translation	-	-	-	-	3	3
<i>Transactions with owners recorded directly in equity</i>						
Share issues	245	2,755	-	-	-	3,000
Share based payments	-	-	-	115	-	115
Balance at 31 December 2017	5,018	35,439	-	4,963	(127)	45,293
<i>Total comprehensive loss for the year</i>						
Loss for the financial year	-	-	-	(32,624)	-	(32,624)
Movement in foreign currency translation	-	-	-	-	(23)	(23)
<i>Transactions with owners recorded directly in equity</i>						
Share issues	5,002	-	-	-	-	5,002
Share based payments	-	-	-	(202)	-	(202)
Convertible loan notes	-	-	967	-	-	967
Balance at 31 December 2018	10,020	35,439	967	(27,863)	(150)	18,413

Statements of Changes in Equity (continued)
for the year ended 31 December 2018 (continued)

Company	Share Capital (a)	Share Premium (b)	Equity reserve (c)	Retained Earnings (d)	Total equity
	£000	£000	£000	£000	£000
Balance at 1 January 2017	4,773	32,684	-	17,256	54,713
<i>Total comprehensive loss for the year</i>					
Loss for the year	-	-	-	(830)	(830)
<i>Transactions with owners recorded directly in equity</i>					
Share issues	245	2,755	-	-	3,000
Share based payments	-	-	-	115	115
Balance at 31 December 2017	5,018	35,439	-	16,541	56,998
<i>Total comprehensive loss for the year</i>					
Loss for the year	-	-	-	(57,390)	(57,390)
<i>Transactions with owners recorded directly in equity</i>					
Share issues	5,002	-	-	-	5,002
Share based payments	-	-	-	(202)	(202)
Convertible loan notes	-	-	967	-	967
Balance at 31 December 2018	10,020	35,439	967	(41,051)	5,375

(a) Share capital represents the nominal value of equity shares

(b) Share premium represents the excess over nominal value of the fair value of consideration received for equity shares; net of expenses of the share issue;

(c) The equity reserve consists of the equity component of convertible loan notes that were issued as part of the fundraising in August 2018 less the equity component of instruments converted or settled.

The fair value of the equity component of convertible loan notes issued is the residual value after deduction of the fair value of the debt component of the instrument from the face value of the loan note.

(d) Retained earnings represents retained profits and accumulated losses

(e) On consolidation, the balance sheets of the Group's foreign subsidiaries are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange gains or losses arising from the consolidation of these foreign subsidiaries are recognised in the foreign currency translation reserve.

Statements of Cash Flows

for the year ended 31 December 2018

Group	Note	2018 £000	2017 £000
Cash flows from operating activities			
Loss for the year		(32,624)	(11,241)
Adjustments for:			
Depreciation	12	3,033	3,158
Amortisation	13	3,549	3,602
Impairment charge	13	21,505	9,339
Net finance expenses	8	390	341
Taxation	10	(1,216)	(1,600)
Share based payments	29	(202)	115
Loss on disposal of fixed assets		425	112
Other		-	13
Profit on disposal of subsidiary	7	(680)	-
		<u>(5,820)</u>	<u>3,839</u>
Decrease/ (increase) in trade and other receivables		6,284	(1,570)
Decrease/ (increase) in inventory		366	(366)
(Decrease)/ increase in trade and other payables and deferred income		(11,320)	496
Increase/ (decrease) in provisions		1,485	(1,185)
		<u>(9,005)</u>	<u>1,214</u>
Cash flows from investing activities			
Proceeds from sale of subsidiary and PACT business, net of overdraft repaid	7	3,611	-
Acquisition of subsidiary, net of cash acquired		-	(597)
Acquisition of property, plant and equipment	12	(272)	(2,396)
Acquisition of other intangible assets	13	-	(754)
Realisation/ (acquisition) of non-current financial assets		89	(4)
Proceeds from sale of fixed assets		23	4
		<u>3,451</u>	<u>(3,747)</u>
Net cash generated/ (used in) investing activities			
Cash flows from financing activities			
Interest paid		(320)	(322)
Share issue, net of expenses	28	3,752	-
New loans and borrowings, net of expenses	23&24	3,800	1,300
Repayment of loans and borrowings		(2,750)	(800)
New finance leases		-	488
Repayment of finance leases		(335)	(763)
		<u>4,147</u>	<u>(97)</u>
Net cash generated / (used in) from financing activities			
Net decrease in cash and cash equivalents		(1,407)	(2,630)
Cash and cash equivalents at 1 January		(1,498)	1,132
		<u>(2,905)</u>	<u>(1,498)</u>
Cash and cash equivalents at 31 December			
Cash and cash equivalents comprise			
Cash at bank	20	-	1,106
Overdrafts	23	(2,905)	(2,604)
		<u>(2,905)</u>	<u>(1,498)</u>

Statements of Cash Flows (continued)
for the year ended 31 December 2018 (continued)

Company	Note	2018 £000	2017 £000
Cash flows from operating activities			
Loss for the year		(57,389)	(830)
Adjustments for:			
Net financial expenses		278	152
Share based payments		(202)	115
Other		29	-
		<u>(57,284)</u>	<u>(563)</u>
Decrease / (increase) in trade and other receivables		58,811	(1,139)
Decrease in trade and other payables		(808)	(158)
Decrease in provisions	22	(202)	(23)
Net cash from operating activities		<u>517</u>	<u>(1,883)</u>
Cash flows from financing activities			
Interest paid		(209)	(152)
Share issue, net of expenses	28	3,752	-
New loans and borrowings, net of expenses	23&24	3,800	1,991
Repayment of loans and borrowings	23	(2,750)	-
Net cash generated from financing activities		<u>4,593</u>	<u>1,839</u>
Net decrease in cash and cash equivalents		5,110	(44)
Cash and cash equivalents at 1 January		378	422
Cash and cash equivalents at 31 December	17	<u>5,488</u>	<u>378</u>

Notes to the Consolidated Financial Statements

1 Accounting policies

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

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

The principal accounting policies, which have been applied consistently in the preparation of these consolidated financial statements throughout the year and all by subsidiary companies are set out below. These are the first full year results which are presented by IDE following the adoption of IFRS 9 and 15. The adoption of both IFRS 15 and IFRS 9 has not resulted in restatements but has resulted in additional disclosure. Further detail of the implementation of these new standards can be found in note 1.28.

1.1 Basis of preparation

The consolidated financial statements of IDE Group have been prepared on the going concern basis and in accordance with EU adopted International Financial Reporting Standards (IFRS), IFRS Interpretations Committee (IFRS IC) and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention. The Company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the parent Company's Income Statement.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 1.29 in the accounting policies.

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

Post the year end, the Group fully repaid its banking facilities with National Westminster Bank plc which consisted of a £4.75 million Revolving Credit Facility (the total facility was £7.5 million; £2.75 million was repaid in October 2018 with the proceeds of the disposal of 365 ITMS Limited) and a £3.5 million overdraft facility. The facilities were repaid with the proceeds of the issue of 6-year secured loan notes post year to certain of the Company's shareholders. Further detail can be found in note 23.

Based on the above and taking into account the support of certain of the Company's significant shareholders, of which two are represented on the Board, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

1.2 Basis of consolidation

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

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

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

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.3 Intangible assets

Goodwill

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

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

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

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

Other intangible assets arising from business combinations

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

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

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

Technology development

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

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

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

1.4 Property, plant and equipment

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

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

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.4 Property, plant and equipment *(continued)*

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

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

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

1.5 Impairment of assets

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

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

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

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

1.6 Inventory

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

1.7 Share capital

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

1.8 Leases

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

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

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.8 Leases *(continued)*

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

1.9 Current and deferred income tax

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

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

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

1.10 Trade and other receivables

Trade receivables, which principally represent amounts due from customers, are recognised at amortised cost as they meet the IFRS 9 classification test of being held to collect, and the cash flow characteristics represent solely payments of principal and interest.

The Group has applied the Simplified Approach applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customers with different credit risk profiles and current and forecast trading conditions. This assessment has not resulted in a material adjustment to trade and other receivables.

Trade receivables are written-off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the company.

Previous accounting policy for impairment of trade and other receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. An estimate for doubtful debts was made when there was objective evidence that the Group would not be able to collect amounts due according to the original terms of receivables. Bad debts were written off when identified. This previous policy does not apply to the comparatives as at 31 December 2017 in these financial statements. The comparatives were assessed under the new policy, and the assessment did not result in any adjustments.

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

1.11 Cash and cash equivalents

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

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

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.11 Foreign currencies

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

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

1.12 Trade payables

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

1.13 Accruals and deferred income

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

1.14 Provisions

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

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

1.15 Pensions

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

1.16 Share-based payment transactions

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

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

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

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.17 Accrual for employee benefits, including holiday pay

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

1.18 Financial assets and liabilities

The Group's financial assets and liabilities mainly comprise cash, borrowings, trade and other receivables and trade and other payables. These are accounted for in accordance with the relevant accounting policy note.

Trade and other payables are not interest bearing and are stated at their amortised cost.

1.19 Convertible loan notes

The component parts of convertible loans issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. At the date of issue, the fair value of the liability portion of convertible loan notes is determined using a market interest rate for a comparable loan note with no conversion option. This amount is recorded as a liability on an amortised cost basis using the effective interest method until the loan notes are redeemed or converted either during or at the end of the term of the convertible loan notes. The remainder of the carrying amount of the loan notes is allocated to the conversion option and shown within equity, and is not subsequently remeasured. When the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained earnings. No gain or loss is recognised in the income statement upon conversion or expiration of the conversion options.

1.20 Interest-bearing loans and borrowings

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

1.21 Finance costs

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

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

1.22 Revenue

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

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

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.22 Revenue *(continued)*

Recurring revenue

The largest portion of the Group's revenues relates to a number of network, cloud and IT managed services, which the Group offers to its customers. All of the revenue in this category is contracted and includes a full range of support, maintenance, subscription and service agreements. Revenue for these types of services is recognised as the services are provided on the basis that the customer simultaneously receives and consumes the benefits provided by the Group's performance of the services over the contract term. In terms of performance obligations, the customer can benefit from each service on its own and the Group's promise to transfer the service to the customer is separately identifiable from other promises in the contract. The transaction price for each service is allocated to each performance obligation. The costs incurred for these revenue streams typically match the revenue pattern. Deferred income is recognised when billing occurs ahead of revenue recognition. Accrued revenue is recognised when the revenue recognition criteria were met but in accordance with the underlying contract, the sales invoice has not been issued yet.

Project revenue

These project services include mainly installation and consultancy services. Revenue from these services is recognised in accordance with the underlying contracts. Performance obligations are met once the hours or days have been worked. Revenue is therefore recognised over time based on the hours or days worked at the agreed price per hour or day. The costs incurred for this revenue stream generally match the revenue pattern, as a significant portion of consultancy costs relate to staff costs, which are recognised as incurred. Consultancy services are generally provided on a time and material basis.

1.23 Exceptional items

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

1.24 Cost of Sales

Cost of sales include costs which are directly attributable to the supply of goods and services, including salary costs of all employees whose roles are directly related to the provision of services. Previously salary costs of certain employees whose roles were directly related to the provision of services were included in administrative expenses, hence the results for the year ended 31 December 2017 have been restated to reflect the change in allocation of these salary costs between administrative expenses and cost of sales. Please see note 2 for an explanation of the restatement.

1.25 Operating profit or loss

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

1.26 Segmental reporting

The Chief Operating Decision Maker has been identified as the Executive Board. The Chief Operating Decision Maker reviews the Group's internal reporting in order to assess performance and allocate resources. For management reporting purposes and operationally, the continuing operations of the Group consist of four business segments: (i) managed services, (ii) cloud and hosting (iii) networks, and (iv) projects. The Board assess the performance of the operating segments based on gross profit. The businesses of each segment and a further analysis of revenue and gross profit are described under their respective headings in the financial review.

Information provided to the Executive Board is measured in a manner consistent with that in the Financial Statements.

1.27 Discontinued operations

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

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.28 Application of new IFRSs and interpretations

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

The Group implemented IFRS 15 Revenue from Contracts with Customers, as of 1 January 2018 and has also considered the impact on the comparative results for the year ended 31 December 2017. The new standard sets out revenue recognition requirements, and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the Group's contracts with customers. The standard requires entities to apportion revenue earned from contracts to performance obligations on a relative stand-alone basis, based on a five-step model. Having undertaken a review of all the services and products the Group provides, and the main types of commercial arrangements used with each service and product, the Group has concluded that the implementation of the new standard has not resulted in a change in the revenue recognition accounting policies of the Group. Therefore, following implementation of IFRS 15, there was no material impact of transition on retained earnings at 1 January 2018 or 1 January 2017, on the Group's consolidated statement of financial position as at 31 December 2018 or 31 December 2017, on its consolidated income statement and consolidated statement of other comprehensive income, or on the cash flows for the year to 31 December 2018 or 31 December 2017. The new standard also introduces expanded disclosure requirements.

The Company has limited or no revenue.

International Financial Reporting Standard (IFRS) 9 “Financial Instruments”

The Group implemented IFRS 9 Financial Instruments, as of 1 January 2018 and has also considered the impact on the comparative results. The new standard includes revised guidance on the classification and measurement of financial instruments.

IFRS 9 introduces principle-based requirements for the classification of financial assets, using the following measurement categories: (i) Amortised cost; (ii) Fair value through Other Comprehensive Income with cumulative gains and losses reclassified to profit or loss upon derecognition; and (iii) Fair value through profit or loss. IFRS 9 also introduces a new impairment model, the expected credit loss model.

The Group now reviews the amount of credit loss associated with its trade receivables based on forward looking estimates that take into account current and forecast credit conditions as opposed to relying on past historical default rates. In adopting IFRS 9 the Group has applied the Simplified Approach applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customers with different credit risk profiles and current and forecast trading conditions. Having assessed the requirements according to the new standard, the Group has concluded that no significant additional impairment to the carrying values of the assets was required at 1 January 2017, at 31 December 2017 or at 31 December 2018. Details of the expected credit loss provision for trade receivables is shown in note 16.

International Financial Reporting Standard (IFRS) 16 “Leases”

IFRS 16 Leases, is effective for periods beginning on or after 1 January 2019. IFRS 16 removes the operating and finance lease classification for lessees in IAS 17 Leases and replaces them with the concept of right-of-use assets and associated financial liabilities. This change results in the recognition of a liability on the balance sheet for all leases which convey a right to use the asset for the period of the contract. The lease liability reflects the present value of the future rental payments, discounted using either the effective interest rate or the incremental borrowing rate of the entity. The operating lease charges currently reflected within operating expenses (and EBITDA) will be eliminated and instead depreciation and finance charges will be recognised in respect of the lease assets and liabilities.

As an indication of the effect of IFRS 16 for the current reporting period, based on the operating leases in place and qualifying for recognition under IFRS 16 it has been estimated that this would have resulted in the recognition of additional lease assets within property, plant and equipment of approximately £2.0 million and additional lease liabilities of approximately £2.0 million in total for the Group. An estimation of the expected depreciation charge against the right of use asset in 2018 has been calculated to be £0.8 million, with an interest charge of £0.4 million, which compares to an operating lease charge within operating expenses of £1.4 million, resulting in an increase in Adjusted EBITDA of £1.4 million.

The Group plans to adopt the modified retrospective approach.

The Company has no operating leases.

Notes to the Consolidated Financial Statements (continued)

1 Accounting policies (continued)

1.29 Critical accounting estimates and judgements

Estimates

The Group makes estimates and assumptions concerning the future, which by definition will seldom result in actual results that match the accounting estimate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

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

Estimated impairment of goodwill and intangibles - the Group tests at both the interim stage and at year end whether goodwill and any non-amortised intangible assets have suffered any impairment, in accordance with the accounting policy stated in 1.5 above. The Group also tests at the interim stage and at year end whether other intangible assets which are amortised have suffered any impairment. Should circumstances change between the interim stage and the year end, then any impairment in relation to intangible assets other than goodwill which was recognised at the interim stage is reviewed and, if applicable, reversed. The value-in-use calculations contain a number of significant estimates and assumptions including future sales, margins and appropriate discount rates. See note 13 in the financial statements for an analysis of goodwill and CGUs.

Judgements

In the process of applying the Group's accounting policies, management makes various judgements which can significantly affect the amounts recognised in the financial statements. Critical judgements are considered to be:

Classification of exceptional costs - the Directors have exercised judgement when classifying certain costs arising during integration and strategic reorganisation projects. The Directors believe that these costs are all related to the types of costs described in 1.23 above and are appropriately clarified.

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

2 Restatement of results for the year ended 31 December 2017

The table below shows the effect of the change in allocation of salary costs of certain employees whose roles were directly related to the provision of services from administrative expenses to cost of sales for the year ended 31 December 2017:

	As reported 31 December 2017 £000	Reallocation of salary costs £000	Restated year ended 31 December 2017 £000
Continuing operations			
Revenue	53,745	-	53,745
Cost of sales	(34,877)	(2,935)	(37,812)
	<hr/>	<hr/>	<hr/>
Gross profit	18,868	(2,935)	15,933
Administrative expenses	(22,263)	2,935	(19,328)
Impairment charge	(9,339)	-	(9,339)
	<hr/>	<hr/>	<hr/>
Operating loss	(12,734)	-	(12,734)
	<hr/>	<hr/>	<hr/>

Notes to the Consolidated Financial Statements *(continued)*

3 Segment reporting

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

The following table presents revenue and gross profit in respect of the Group's continuing operating segments for the year ended 31 December 2018. Administrative expenses are not allocated against operating segments in the Group's internal reporting. Revenue included within the central segment represents rental income.

Year ended 31 December 2018	Managed Services	Cloud Hosting	Networks	Projects	Central	Total Continuing Operations	Discontinued Operations	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Revenue	16,521	10,240	7,279	6,963	134	41,137	10,428	51,565
Cost of Sales	(13,173)	(10,058)	(6,621)	(4,669)	-	(34,521)	(7,822)	(42,343)
Gross profit	3,348	182	658	2,294	134	6,616	2,606	9,222
Administrative expenses	-	-	-	-	(18,522)	(18,522)	(2,600)	(21,122)
Impairment loss on trade receivables	-	-	-	-	(725)	(725)	-	(725)
Impairment charge	-	-	-	-	(17,528)	(17,528)	(3,977)	(21,505)
Operating profit/(loss)	3,348	182	658	2,294	(36,641)	(30,159)	(3,971)	(34,130)
<i>Analysed as:</i>								
Adjusted EBITDA	3,348	182	658	2,294	(10,368)	(3,886)	582	(3,304)
Exceptional costs	-	-	-	-	(2,368)	(2,368)	(148)	(2,516)
Depreciation	-	-	-	-	(2,848)	(2,848)	(185)	(3,033)
Amortisation of intangible assets	-	-	-	-	(3,290)	(3,290)	(259)	(3,549)
(Loss)/profit on disposal of fixed assets	-	-	-	-	(441)	(441)	16	(425)
Share based payments	-	-	-	-	202	202	-	202
Profit on disposal of subsidiary	-	-	-	-	-	-	680	680
Net financial costs	-	-	-	-	(389)	(389)	(1)	(390)
Profit/(loss) before taxation	3,348	182	658	2,294	(37,030)	(30,548)	(3,292)	(33,840)
Tax on profit/(loss) on ordinary activities	-	-	-	-	1,089	1,089	127	1,216
Profit/(loss) for the year after taxation	3,348	182	658	2,294	(35,941)	(29,549)	(3,165)	(32,624)

Notes to the Consolidated Financial Statements (continued)

3 Segment reporting (continued)

Year ended 31 December 2017 - Restated	Managed Services £000	Cloud Hosting £000	Networks £000	Projects £000	Central £000	Total Continuing Operations £000	Discontinued Operations £000	Total £000
Revenue	22,959	10,732	8,709	11,229	116	53,745	11,206	64,951
Cost of Sales	(17,007)	(6,991)	(6,512)	(7,302)	-	(37,812)	(6,116)	(43,928)
Gross profit/(loss)	5,952	3,741	2,197	3,927	116	15,933	5,090	21,023
Administrative expenses	-	-	-	-	(18,948)	(18,948)	(4,856)	(23,804)
Impairment loss on trade receivables	-	-	-	-	(380)	(380)	-	(380)
Impairment charge	-	-	-	-	(9,339)	(9,339)	-	(9,339)
Operating profit/(loss)	5,952	3,741	2,197	3,927	(28,551)	(12,734)	234	(12,500)
Analysed as:								
Adjusted EBITDA	5,952	3,741	2,197	3,927	(11,680)	4,137	1,256	5,393
Exceptional costs	-	-	-	-	(1,212)	(1,212)	(355)	(1,567)
Depreciation	-	-	-	-	(3,003)	(3,003)	(155)	(3,158)
Amortisation of intangible assets	-	-	-	-	(3,343)	(3,343)	(259)	(3,602)
Loss on disposal of fixed assets	-	-	-	-	(112)	(112)	-	(112)
Share based payments	-	-	-	-	(115)	(115)	-	(115)
Net financial costs	-	-	-	-	(291)	(291)	(50)	(341)
Profit/(loss) before taxation	5,952	3,741	2,197	3,927	(28,842)	(13,025)	184	(12,841)
Tax on profit/(loss) on ordinary activities	-	-	-	-	1,599	1,599	1	1,600
Profit/(loss) for the year after taxation	5,952	3,741	2,197	3,927	(27,243)	(11,426)	185	(11,241)

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

The Group had one customer who accounted for 36.8% of revenue from continuing operations during the year (2017: 30.6%). This customer purchased Managed Services and Projects from the Group.

In respect of revenue by geographical location for the year ended 31 December 2018, revenue from continuing operations of £39.4 million (2017: £50.2 million) was generated in the United Kingdom, £1.2 million (2017: £0.9 million) was generated in Europe and £0.5 million (2017: £1.0 million) was generated outside of Europe.

Notes to the Consolidated Financial Statements (continued)

4 Expenses by nature

	2018 £000	2017 £000
Continuing operations		
Direct staff costs	8,858	14,012
Other cost of sales	25,663	20,865
Employee costs within administrative expenses	5,737	6,078
Amortisation of intangible assets	3,290	3,090
Depreciation	2,848	3,003
Impairment charge	17,528	9,339
Impairment loss on trade receivables	725	380
Loss on disposal of fixed assets	441	112
Share-based payments	(202)	115
Exceptional costs	2,368	1,212
Amounts payable under operating leases	1,463	1,457
Foreign exchange differences	15	-
Other administrative costs	2,562	6,817
Total cost of sales and administrative expenses	71,296	66,479

5 Auditor's remuneration

	2018 £000	2017 £000
Audit of these financial statements	25	20
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the Company	72	69
Additional fees charged in respect of prior year's audit	60	-
Total	157	89

6 Exceptional costs

In accordance with the Group's policy in respect of exceptional items, the following charges were incurred for the year in relation to continuing operations:

	2018 £000	2017 £000
Restructuring and reorganisation costs	2,105	1,034
Trademark dispute	263	-
Acquisition costs	-	178
	2,368	1,212

Restructuring and reorganisation costs in the year ended 31 December 2018 relate to costs incurred on the restructure of the Group, predominantly redundancy costs. Restructuring costs in the year ended 31 December 2017 relate to costs incurred on the integration of the businesses acquired during the year and the previous year. These costs include employment related costs of staff made redundant as a consequence of integration, rebranding costs, other non-recurring costs associated with the integration during the year and costs following the disposal of the Group's legacy business. Trademark dispute costs relate to the settlement and associated legal costs in relation to the trademark dispute with Coreix Limited.

Acquisition costs in the year ended 31 December 2017 predominantly related to costs incurred on the acquisition of 365 ITMS during the year and include legal, financial due diligence and corporate advisory fees.

Notes to the Consolidated Financial Statements (continued)

7 Discontinued operations

On 12 October 2018, the Company sold the entire issued share capital of 365 ITMS Limited ("365 ITMS") and its subsidiaries to PTCA Newco Limited ("PTCA"), a newly incorporated company owned by certain members of the management team within 365 ITMS, on a cash free, debt free basis with a normalised level of working capital (the "Sale"). The consideration for the Sale was £2.8 million, payable in cash. The proceeds of the Sale were used to reduce the Group's net debt.

In addition, as part of the Sale, certain assets relating to PACT, the Group's business unit focused on cyber security, including contracts and staff, were transferred to 365 ITMS for cash consideration of £0.2 million which was paid to the Group by 365 ITMS upon completion of the Sale. The results for 2018 below are from 1 January to the date of the Sale. The figures for 2017 included 9 months' contribution from 365 ITMS from the date of acquisition and 6 months' contribution from PACT which was established in June 2017.

The results of the discontinued operations were as follows:

	2018 £000	2017 £000
Revenue	10,428	11,206
Expenses	(14,400)	(11,022)
	<hr/>	<hr/>
(Loss)/ profit before tax	(3,972)	184
	<hr/>	<hr/>
Attributable tax credit	127	1
Profit on disposal of discontinued operations	680	-
	<hr/>	<hr/>
Net (loss)/ profit attributable to discontinued operations	(3,165)	185
	<hr/>	<hr/>

The net assets and liabilities at disposal and the profit on disposal were as follows:

	2018 Total £000
Goodwill	2,148
Intangible assets	754
Property, plant and equipment	286
Trade and other receivables	3,190
Trade and other payables	(5,328)
	<hr/>
Net assets	1,050
	<hr/>
Cash consideration	3,000
Working capital adjustment	(1,270)
Net assets disposed of	(1,050)
	<hr/>
Profit on disposal	680
	<hr/>

The working capital adjustment relates to the repayment of the portion of the Group's overdraft which sat within 365 ITMS plus additional amounts to allow for a normalised level of working capital within 365 ITMS at the point of disposal.

Notes to the Consolidated Financial Statements *(continued)*

7 Discontinued operations *(continued)*

	2018 Total £000
Cash consideration	3,000
Overdraft at disposal	2,419
Repayment of intercompany	(1,808)
Net cash inflow from discontinued operations	3,611

The statement of cashflows includes the following amounts relating to discontinued operations

	2018 Total £000
Operating activities	1,780
Investing activities	1
Financing activities	610
Net cash from discontinued operations	2,461

8 Finance costs

Continuing Operations	2018 £000	2017 £000
Interest payable on bank loans and overdrafts	232	204
Interest expense on finance lease obligations	55	64
Amortisation of loan arrangement fees	32	23
Interest expense in respect of convertible loan notes	70	-
	389	291

The Group had no finance income in 2018 or 2017.

9 Employee benefits expense

Staff costs for the year, including Directors, relating to continuing operations amounted to:

	2018 £000	2017 £000
Wages and salaries	12,667	17,523
Social security costs	1,325	1,480
Other pension costs	603	609
Share-based payments	(202)	115
	14,393	19,727

At 31 December 2018, the Group employed 303 staff, including Directors (2017: 525).

Notes to the Consolidated Financial Statements (continued)

9 Employee benefits expense (continued)

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

	Number of employees	
	2018	2017
Operations	309	310
Sales and Marketing	22	52
Administration	54	71
Directors	4	5
Total average monthly headcount	389	438

The Company employed an average of 4 employees during 2018 (2017: three) (the non-Executive Directors) as detailed below.

For Directors who held office during the year, emoluments for the year ended 31 December 2018 were as follows:

	Salary/fees £	Benefits £	Pension £	2018 total £	2017 total £
Executive					
Andy Ross	130,967	525	9,652	141,144	269,632
Julian Phipps	85,850	525	6,495	92,870	193,320
Ian Smith ¹	29,167	-	-	29,167	-
Andy Parker	38,469	-	-	38,469	-
Non-Executive					
Jonathan Watts	16,668	-	-	16,668	52,935
Bill Dobbie	20,000	-	-	20,000	30,000
Katherine Ward	23,334	-	-	23,334	35,000
Max Royde ²	7,177	-	-	7,177	-
Total	351,632	1,050	16,147	368,829	580,887

1. Directors' emoluments to Ian Smith were paid to MXC Advisory Limited, a subsidiary of MXC Capital Limited
2. Directors' emoluments to Max Royde were paid to Kestrel Partners LLP

Social security costs in respect of Directors' emoluments were £44k (2017: £67k). Pension contributions were made to a defined contribution scheme for previous directors. No current director participates in any Company pension scheme.

None of the Directors made any gains on the exercise of share options in 2018 or 2017.

The options previously awarded to Jonathan Watts, Andy Ross and Julian Phipps lapsed upon their departure.

Following the lapse of options during the year, equity share based payments in respect of Directors amounted to a credit of £104k in the year to 31 December 2018 (2017: £72k expense), with equity share based payments in respect of other employees amounting to a credit of £102k in the year to 31 December 2018 (2017: £43k expense).

Notes to the Consolidated Financial Statements *(continued)*

10 Taxation

(a) Tax on loss on ordinary activities

	2018 £000	2017 £000
Current tax credit		
Current year	-	-
Adjustments for prior years	-	(1)
Current tax credit	-	(1)
Deferred tax credit*	(1,216)	(1,599)
Total tax credit	(1,216)	(1,600)
Relating to:		
Continuing operations	(1,089)	(1,599)
Discontinued operations	(127)	(1)
	(1,216)	(1,600)

The Finance Act 2016 reduced the UK main corporation tax rate to 17% from 1 April 2020. This will reduce the Group's future current tax charge accordingly. Deferred tax has been re-measured on the basis of these new rates and reflected in the financial statements.

Reconciliation of the total income tax credit:

	2018 £000	2017 £000
Loss for the year	(32,624)	(11,241)
Loss/ (profit) before tax from discontinued operations	3,292	(184)
Total tax credit	(1,216)	(1,600)
Loss before taxation and profit on continuing operations	(30,548)	(13,025)
Tax using the United Kingdom corporation tax rate of 19% (2016: 19.25%)	(5,804)	(2,507)
Non-deductible expenses	747	1,939
Depreciation on non-qualifying assets	3,332	18
Adjustments for prior years	-	35
Utilisation of losses	-	(452)
Tax losses not recognised	986	38
Prior year adjustment deferred tax	(431)	(82)
Adjustment for rate change	81	(588)
Discontinued operations	(127)	(1)
Total tax credit	(1,216)	(1,600)

Notes to the Consolidated Financial Statements *(continued)*

10 Taxation *(continued)*

(b) Deferred tax liability

	2018 £000	2017 £000
At 1 January	5,115	6,503
Business combinations	-	211
Credit to income statement	(1,216)	(1,599)
	<hr/>	<hr/>
At 31 December	3,899	5,115
	<hr/>	<hr/>

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

	2018 £000	2017 £000
Depreciation in advance of capital allowances	(572)	(140)
On acquisitions	4,489	5,288
Other temporary differences	(18)	(34)
	<hr/>	<hr/>
At 31 December	3,899	5,115
	<hr/>	<hr/>

The Group had unrecognised trading losses carried forward at 31 December 2018 of £25.5 million (2017: £13.0 million).

11 Earnings per share

Basic earnings per share has been calculated using the loss after tax for the year for continuing operations of £29.5 million (2017: £11.4 million), a loss after tax for the year for discontinued operations of £3.2 million (2017: profit of £0.2 million) and a weighted average number of ordinary shares of 246,067,004 (2017: 198,198,486). For continuing operations in 2017 and 2018, the weighted average number of ordinary shares for the purpose of calculating the basic and diluted measures is the same. This is because the outstanding share incentives, details of which are given in note 29, would have the effect of reducing the loss per ordinary share and therefore would be anti-dilutive under the terms of IAS 33. The dilutive effect of share options and warrants at 31 December 2017 for the purposes of the discontinued operations increased the weighted average number of ordinary shares to 212,066,860.

Continuing operations

	2018	2017
Statutory basic loss per share (pence)	(11.97)	(5.76)
Statutory diluted loss per share (pence)	(11.97)	(5.76)

Discontinued operations

Statutory basic (loss)/ earnings per share (pence)	(1.29)	0.09
Statutory diluted (loss)/earnings per share (pence)	(1.29)	0.09

Notes to the Consolidated Financial Statements (continued)

12 Property, plant and equipment

Group

	Leasehold property £000	Computer software £000	Network infrastructure £000	Equipment, fixtures and fittings £000	Total £000
Cost					
At 1 January 2017	39	1,033	12,416	2,604	16,092
Business combinations	4	12	97	138	251
Additions	-	550	927	919	2,396
Disposals	-	-	(171)	(35)	(206)
At 31 December 2017	43	1,595	13,269	3,626	18,533
Disposal of discontinued operations	55	(12)	(139)	(424)	(520)
Additions	19	131	308	96	554
Disposals	-	(711)	-	(14)	(725)
At 31 December 2018	117	1,003	13,438	3,284	17,842
Accumulated depreciation					
At 1 January 2017	8	224	1,253	930	2,415
Charge for the year	16	449	1,390	1,303	3,158
Disposals	-	-	(59)	(25)	(84)
At 31 December 2017	24	673	2,584	2,208	5,489
Disposal of discontinued operations	57	(10)	(56)	(223)	(232)
Charge for the year – continuing	10	304	1,961	573	2,848
Charge for the year – discontinued	5	5	47	128	185
Disposals	-	(283)	-	(1)	(284)
At 31 December 2018	96	689	4,536	2,685	8,006
Net carrying amount					
31 December 2018	21	314	8,902	599	9,836
31 December 2017	19	922	10,685	1,418	13,044

As at 31 December 2018, included within network infrastructure and equipment, fixtures and fittings are assets held under finance leases with a carrying value of £1.7 million (2017: £1.7 million) and £475k (2017: £47k), respectively.

The depreciation charge for the year of £2.8 million (2017: £3.0 million) relates to continuing operations and has been charged to administrative expenses.

Company

The Company has no property, plant and equipment at 31 December 2018 and at 31 December 2017.

Notes to the Consolidated Financial Statements (continued)

13 Intangible assets

Group

	Goodwill £000	Trademarks £000	Customer contracts and related relationships £000	Technology development £000	Total £000
Cost:					
At 1 January 2017	32,256	1,707	29,076	341	63,380
Business combinations	6,125	-	1,111	-	7,236
Additions	-	-	-	754	754
At 31 December 2017	38,381	1,707	30,187	1,095	71,370
Disposal of discontinued operations	(6,125)	-	(1,111)	(160)	(7,396)
At 31 December 2018	32,256	1,707	29,076	935	63,974
Impairment and amortisation:					
At 1 January 2017	-	299	2,716	64	3,079
Charge for the year		341	3,125	136	3,602
Impairment charge	9,339	-	-	-	9,339
At 31 December 2017	9,339	640	5,841	200	16,020
Amortisation for the year – continuing operations		341	2,865	84	3,290
Impairment charge – continuing operations	16,986	-	13,655	542	31,183
Reversal of impairment charge	-	-	(13,655)	-	(13,655)
Impairment charge – discontinued operations	3,977	-	-	-	3,977
Amortisation for the year – discontinued operations	-	-	259	-	259
Disposal of discontinued operations	(3,977)	-	(518)	-	(4,495)
At 31 December 2018	26,325	981	8,447	826	36,579
Net carrying amount:					
31 December 2018	5,931	726	20,629	109	27,395
31 December 2017	29,042	1,067	24,346	895	55,350

The amortisation charge of £3.3 million relates to continuing operations and is included in the loss for the year from continued operations in the Income Statement within administrative expenses. Prior to disposal, an impairment charge of £4.0 million was recognised in relation to the goodwill recognised on the acquisition of 365 ITMS.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is supported by calculating the discounted cash flows arising from the businesses acquired which represent the cash generating unit ("CGU") to which goodwill is allocated. The Group's CGUs are considered to be the two trading subsidiaries, IDE Group Manage (formerly Selection Services) and IDE Group Connect (formerly C4L).

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

At the time of the interim results for the six months to 30 June 2018 ("Interim Results"), impairment charges totalling £25.0 million were recognised in relation to goodwill and intangible assets resulting from the acquisition of Selection Services (now IDE Group Manage) to reflect what the Directors believed at the time to be the then current value of the business. However, given the restructuring which took place in the second half of the year and the improving performance of IDE Group Manage, the Board has reassessed the value of IDE Group Manage and reversed £13.7 million of impairment in relation to customer contracts within IDE Group Manage which was recognised at the time of the Interim Results.

Notes to the Consolidated Financial Statements (continued)

13 Intangible assets (continued)

The impairment charges in 2018 include a £10.1 million impairment to the goodwill arising on acquisition of Selection Services and £6.9 million impairment to the goodwill arising on the acquisition of C4L.

The recoverable amount of all cash generating units has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets until 31 December 2019 and extrapolated for a further four years by growth rates applicable to the CGU. The financial budgets were approved by the Board of Directors post publication of the Interim Results to 30 June 2018. The recoverable amount in relation to IDE Group Manage was calculated to be £17.8 million and the recoverable amount in relation to IDE Group Connect was calculated to be £19.4 million.

The calculations used to compute cash flows at CGU level are based on the Group's budget, growth rates, WACC and other known variables. The calculations are sensitive to movements in both WACC and the customer retention ratio. The WACC has been estimated at 15% per annum and the revenue and gross margin growth rates range from 10% to 17.5%. Sensitivities have been run on cash flow forecasts for all CGUs. The Board is satisfied that the key assumptions of revenue, gross margin and EBITDA growth rates are achievable and that reasonably possible changes to those key assumptions would not lead to the carrying amount of the relevant CGU exceeding the recoverable amount. Sensitivity analyses have been performed and the table below summarises the effects of changing certain key assumptions and the resultant excess (or shortfall) of discounted cash flows against the aggregate of goodwill and intangible assets:

Sensitivity analysis

	IDE Group Manage £000s	IDE Group Connect £000s
Base case fair value of intangible assets	17,810	19,386
Excess of fair value over carrying value:		
Base case	5,415	4,386
Discount rate increased to 16%	3,881	2,901
Gross margin growth rate reduced by 5% per annum	91	1,343

Base case calculations demonstrate an adequate level of headroom whilst highlighting that the impairment review is sensitive to the discount rate and growth rate. Given the Group's current pipeline and ability to undertake large projects which could result in higher gross margin, as well as the fact that further direct cost savings are in the process of being identified, the Board is satisfied with the rates of growth in the base case and believe there could be significant upside.

The remaining unamortised life of the intangible assets at 31 December 2018 is as follows:

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

Company

The Company has no intangible assets at 1 January 2017, 31 December 2017 and at 31 December 2018.

14 Investments

Company

	2018 £000	2017 £000
At 1 January 2017, 31 December 2017 and 31 December 2018	7,877	7,877

Notes to the Consolidated Financial Statements (continued)

14 Investments (continued)

The Company has the following investments in subsidiaries:

	Country of Incorporation	Class of shares held	Ownership 2017	2016
Held directly by IDE Group Holdings plc				
IDE Group Limited	England ¹	Ordinary	100%	100%
Connexions4London Limited	Scotland ²	Ordinary	100%	100%
Selection Services Investments Limited	Scotland ²	Ordinary	100%	100%
Selection Services Limited	England ³	Ordinary	100%	100%
Castle Digital Services Inc.	USA ⁴	Ordinary	100%	100%
Cupid.com Inc.	USA ⁴	Ordinary	100%	100%
Assistance Genie Logiciel	France ⁵	Ordinary	100%	100%
Held indirectly by IDE Group Holdings plc				
IDE Group Financing Limited	England ¹	Ordinary	100%	100%
IDE Group Manage Limited	England ¹	Ordinary	100%	100%
IDE Group Protect Limited	England ¹	Ordinary	100%	100%
IDE Group Subholdings Limited	England ¹	Ordinary	100%	100%
IDE Group Connect Limited	England ¹	Ordinary	100%	100%
IDE Group Voice Limited	England ¹	Ordinary	100%	100%
Aggregated Telecom Limited	England ³	Ordinary	100%	100%
Hooya Digital Limited	Cyprus ⁶	Ordinary	100%	100%

- 1 Registered office is located at Napoleon House, Riseley Business Park, Riseley, Reading RG7 1NW
- 2 Registered office is located at 24 Dublin Street, Edinburgh EH1 3PP
- 3 Registered office is located at Interchange Building, Wellesley Road, Croydon CR0 2RD
- 4 Registered office is located at 2711 Centerville Road, Suite 400, New Castle, Wilmington, Delaware 19808, U.S.A.
- 5 Registered office is located at 39 Rue Royale, 92201 Saint-Cloud, France
- 6 Registered office is located at Faneromenis 115, Antouanettas Building, 6031 Lamaca, Cyprus

At 31 December 2018, the trading subsidiaries of the Company were IDE Group Manage Limited and IDE Group Connect Limited.

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

All of the remaining subsidiaries are non-trading.

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

15 Financial assets

	Group		Company	
Non-current	2018	2017	2018	2017
	£000	£000	£000	£000
Rent deposit	-	89	-	-

Financial assets in 2017 consist of a rent deposit held in Cyprus.

Notes to the Consolidated Financial Statements (continued)

16 Trade and other receivables

	Group		Company	
Current	2018 £000	2017 £000	2018 £000	2017 £000
Trade receivables	7,108	8,955	9	-
Less provision for impairment of trade receivables	(725)	(380)	-	-
Trade receivables – net	6,383	8,575	9	-
Accrued income	662	3,030	-	-
Amounts due from subsidiary undertakings	-	-	56,338	57,461
Provision against amounts due from subsidiary undertakings	-	-	(56,338)	-
Tax and social security	-	-	-	127
Prepayments and other debtors	1,848	3,572	37	65
	8,893	15,177	46	57,653

In adopting IFRS 9, the Group now reviews the amount of credit loss associated with its trade receivables based on forward looking estimates that take into account current and forecast credit conditions as opposed to relying on past historical default rates. In adopting IFRS 9 the Group has applied the Simplified Approach applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customers with different credit risk profiles and current and forecast trading conditions.

At period end, customers were categorised into three categories based on spend in the last 12 months:

1. Top 10
2. Top 50
3. Other

Impairment was calculated based on the category the customer falls in to:

	0%
	2%
	5%

Specific provisions are also made based on known issues or changes in the lifetime expected credit loss. As at 31 December 2018, trade receivables of £0.7 million (2017: £0.4 million) were impaired and fully provided.

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

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
At 1 January	380	415	-	-
Acquired with subsidiaries	-	31	-	-
Increase in impairment provision	396	-	-	-
Disposal of discontinued operations	(33)	-	-	-
Utilisation of impairment provision	(18)	(66)	-	-
At 31 December	725	380	-	-

Notes to the Consolidated Financial Statements *(continued)*

16 Trade and other receivables *(continued)*

The creation and release of a provision for impaired receivables has been in the main included in "administrative expenses" in the Income Statement, with some amounts being set against deferred income.

The other asset classes within the Group's trade and other receivables do not contain impaired assets.

Movements in contract assets and liabilities were as follows:

- Trade receivables decreased from £8.6 million to £6.4 million at the reporting date;
- Accrued income decreased from £3.0 million in 2017 to £0.7 million at the reporting date; and
- Deferred income decreased from £6.7 million in 2017 to £3.0 million at the reporting date.

In the Company, amounts due from subsidiary undertakings are unsecured, interest free and are repayable on demand. The amounts due from subsidiary undertakings have been fully provided for as the subsidiary companies do not have sufficient reserves for these amounts to be repaid. The decision to provide for these amounts was taken at the time of completion of the audits for the Group's subsidiary companies and not on implementation of IFRS 9.

17 Inventory

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
Inventory	-	366	-	-

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

18 Cash and cash equivalents

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
Cash and cash equivalents	-	1,106	5,488	378

Bank overdrafts are detailed in note 23, borrowings.

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

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
Credit rating				
A	-	1,106	5,488	378

Notes to the Consolidated Financial Statements *(continued)*

19 Trade and other payables

	Group		Company	
	2018	2017	2018	2017
	£000	£000	£000	£000
Current				
Trade payables	4,883	8,766	156	30
Amounts due to subsidiary undertakings	-	-	1,204	1,178
Other payables	185	142	42	-
Taxation and social security	786	1,511	-	-
Accruals	1,816	5,010	249	48
	<u>7,670</u>	<u>15,429</u>	<u>1,651</u>	<u>1,256</u>

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

20 Deferred income

	Group		Company	
	2018	2017	2018	2017
	£000	£000	£000	£000
Deferred income recognisable within 12 months	2,962	6,405	-	-
Deferred income recognisable after 12 months	13	341	-	-
Total deferred income	<u>2,975</u>	<u>6,746</u>	<u>-</u>	<u>-</u>

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

21 Commitments and contingencies

a) Operating leases

Future aggregated minimum annual lease payments under non-cancellable operating leases for continuing operations as at 31 December 2018 are as follows:

Group	Land and Buildings	Other	Land and Buildings	Other
	2018	2018	2017	2017
	£000	£000	£000	£000
Not later than one year	854	278	1,087	568
After one year but not more than five years	1,197	147	2,427	341
	<u>2,051</u>	<u>425</u>	<u>3,514</u>	<u>909</u>

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

The Company had no operating leases.

b) Capital commitments

The Group had no contracted but not provided for capital commitments at 31 December 2018 (2017: £nil).

Notes to the Consolidated Financial Statements *(continued)*

21 Commitments and contingencies *(continued)*

c) Contingent liabilities

The Group's subsidiaries and the Company may be from time to time involved in one or a number of legal proceedings. At the year end the Group was involved in legal proceedings in relation to termination of a customer contract but the amounts potentially payable or receivable in relation to the matter are immaterial.

22 Provisions

Tax planning provision

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

Property provision

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

Other provisions

Other provisions primarily relate to committed costs under various onerous supplier contracts across hosting, connectivity, hardware and software services, for example costs in relation to empty racks within data centres which have to be paid for regardless of whether populated or not and costs in relation to excess software licences which are not used.

Group	Tax planning provision £000	Property provision £000	Other provision £000	Total £000
Balance at 1 January 2018	33	493	1,208	1,734
Increase in year	-	323	3,131	3,454
Utilised	-	(217)	(1,752)	(1,969)
Balance at 31 December 2018	33	599	2,587	3,219
Non-current				1,705
Current				1,514
				3,219
Company			Other Provision £000	Total £000
Balance at 1 January 2018			252	252
Utilised			(202)	(202)
Balance at 31 December 2018			50	50
Non-current				-
Current				50
				50

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
Non-current				
Bank loan	-	7,500	-	7,500
Unamortised loan arrangement fee	-	(98)	-	(98)
Finance leases	494	518	-	-
	<hr/> 494	<hr/> 7,920	<hr/> -	<hr/> 7,402
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
Current				
Bank loan	4,750	-	4,750	-
Unamortised loan arrangement fee	(69)		(69)	
Bank overdraft	2,905	2,604	-	-
Finance Leases	214	291	-	-
	<hr/> 7,800	<hr/> 2,895	<hr/> 4,681	<hr/> -
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Group	Carrying value 2018 £000	Fair Value 2018 £000	Carrying Value 2017 £000	Fair Value 2017 £000
Non-current				
Bank loan	-	-	7,500	7,098
Finance leases	494	494	518	485
	<u>494</u>	<u>494</u>	<u>8,018</u>	<u>7,583</u>
Company	Carrying value 2018 £000	Fair Value 2018 £000	Carrying Value 2017 £000	Fair Value 2017 £000
Non-current				
Bank loan	-	-	7,500	7,098

Notes to the Consolidated Financial Statements (continued)

23 Borrowings (continued)

Bank facilities

As at the beginning of the year the Group's facilities with National Westminster Bank plc ("Natwest") comprised a five-year £7.5 million Revolving Credit Facility ("RCF") available to the Group until 22 January 2021 and a £3.5 million overdraft facility, renewable annually (the "Facilities"). In October £2.75 million was repaid and the RCF was reduced to £4.75 million. Interest was payable on the utilised RCF at 2% above LIBOR. Interest was payable on the unutilised RCF at 0.8%. As at 31 December 2018, £4.75 million of the RCF was drawn (31 December 2017: £7.5 million).

Post year end, in January 2019, £4.125 million was repaid to Natwest and the RCF was reduced to £625,000. In March 2019 the remaining RCF was repaid alongside the overdraft and the Facilities were cancelled.

Post year end, in January 2019 the Company issued £5.3 million of secured loan notes with a six-year term and a 12% coupon ("Secured LNs"). The proceeds of the Secured LNs were used to part repay the Facilities. In March 2019 a further £4.7 million of Secured LNs were issued to repay the remaining Facilities and provide additional working capital. The Secured LNs carry an arrangement fee of 2.5 per cent., payable at the end of the term, and an exit fee of 2.5 per cent., also payable at the end of the term.

Finance leases

The present value of finance lease liabilities is as follows:

Group	Minimum lease payments 2018 £000	Interest 2018 £000	Principal 2018 £000
Less than one year	254	40	214
Between one and five years	558	64	494
	<u>812</u>	<u>104</u>	<u>708</u>
Group	Minimum lease payments 2017 £000	Interest 2017 £000	Principal 2017 £000
Less than one year	336	45	291
Between one and five years	591	73	518
	<u>927</u>	<u>118</u>	<u>937</u>

The Company has no finance leases at 31 December 2018 or at 31 December 2017.

Notes to the Consolidated Financial Statements (continued)

23 Borrowings (continued)

Reconciliation of borrowings:

Group	Non-current Borrowings £000	Current Borrowings £000	Total Borrowings £000
Balance at 1 January 2018	7,920	2,895	10,815
Transfer from non-current to current	(7,402)	7,402	-
Issue of loan notes	2,000	-	2,000
Repayment of loan notes	(2,000)	-	(2,000)
Repayment of loan	-	(2,750)	(2,750)
New finance leases	190	43	233
Reclassification of finance lease payment	(214)	214	-
Repayment of finance leases	-	(335)	(335)
Overdraft	-	301	301
Amortisation of loan fee	-	30	30
Balance at 31 December 2018	494	7,800	8,294

Company	Non-current Borrowings £000	Current Borrowings £000	Total Borrowings £000
Balance at 1 January 2018	7,402	-	7,402
Transfer from non-current to current	(7,402)	7,402	-
Issue of loan notes	2,000	-	2,000
Repayment of loan notes	(2,000)	-	(2,000)
Repayment of bank loan	-	(2,750)	(2,750)
Amortisation of loan fee	-	29	29
Balance at 31 December 2018	-	4,681	4,681

24 Convertible loan notes

Group and Company

	£000
Balance at 1 January 2018	-
Additions	1,583
Interest unwound	71
Balance at 31 December 2018	1,654

On 21 August 2018, as part of a wider fundraising, the Company issued £2.55 million of unsecured loan notes, which have a term of 5 years and a zero per cent. Coupon ("CLNs"). The CLNs can be converted into new ordinary shares in the capital of IDE at a price of 2.5 pence per share. Conversion is at the option of the holder at any time during the 5-year term. At the end of the term, if the holder has not chosen to convert the CLNs, the CLNs will be settled with a cash repayment. The CLNs have a fair value of £2.54 million, split into an equity component (£0.96 million) and a debt component (£1.58 million).

Notes to the Consolidated Financial Statements *(continued)*

25 Financial instruments by category

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

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

Group	2018 £000	2017 £000
Assets		
Non-current financial assets	-	89
Trade receivables net of bad debt provision	6,383	8,575
Accrued income	662	3,030
Cash and cash equivalents	-	1,106
Total	7,045	12,800

Company	2018 £000	2017 £000
Assets		
Intercompany receivables	-	57,461
Cash and cash equivalents	5,488	378
Trade receivables	9	-
Total	5,497	57,839

The carrying amount of these assets is equivalent to their fair value. At 31 December 2018, trade receivables are reported net of the expected credit loss provision of £0.7 million (2017: £0.4 million).

Group	2018 £000	2017 £000
Liabilities		
Trade payables	4,883	8,766
Accruals and other payables	2,000	5,152
Bank loan	4,750	7,500
Bank overdraft	2,905	2,604
Finance leases	708	809
Convertible loan notes	1,654	-
Total	16,900	24,831

Notes to the Consolidated Financial Statements *(continued)*

25 Financial instruments by category *(continued)*

Company	2018	2017
	£000	£000
Liabilities		
Trade payables	156	30
Accruals and other payables	291	48
Intercompany payables	1,204	1,178
Bank loan	4,750	7,500
Convertible loan notes	1,654	-
Total	8,055	8,756

The carrying amount of these liabilities is equivalent to their fair value.

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

- Level 1: quoted (adjusted) prices in active markets for identical assets and liabilities;
- Level 2: not traded in an active market, but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

The Group has not entered into any derivative financial instruments in the current or preceding period.

26 Financial risk management

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

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

Cash flow risk

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

Borrowings at variable rates expose the Group to cash flow interest rate risk. During the year ended 31 December 2018, the Group's borrowings at variable rate were denominated in Pounds Sterling with interest linked to Sterling interest rates. Post year end, these borrowings were repaid and replaced with loan notes with a fixed rate of interest.

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

Notes to the Consolidated Financial Statements (continued)

26 Financial risk management (continued)

Price risk

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

Credit risk

Credit risk is managed at a subsidiary level. Credit risk arises from cash and cash equivalents as well as credit exposures to customers, including outstanding receivables. Individual risk limits are set based on internal and external ratings and reviewed by management. The utilisation of credit limits is regularly monitored with appropriate action taken by management in the event of the breach of a credit limit. The Group has applied the simplified approach applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customers with different credit risk profiles and current and forecast trading conditions. The Group has recognised a provision in respect of trade receivables of £0.7 million (2017: £0.4 million).

Liquidity risk

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

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

Group	Within 1 year	1-2 years	More than 2 years	Total
At 31 December 2018	£000	£000	£000	£000
Trade and other payables	7,670	-	-	7,670
Finance leases	214	213	281	708
Bank loan	-	-	4,750	4,750
Overdraft	2,905	-	-	2,905
Interest on loan & leases	40	33	32	105
Convertible loan notes	-	-	1,654	1,654
	<u>10,829</u>	<u>246</u>	<u>6,717</u>	<u>17,792</u>

Group	Within 1 year	1-2 years	More than 2 years	Total
At 31 December 2017	£000	£000	£000	£000
Trade and other payables	15,429	-	-	15,429
Finance leases	291	169	349	809
Bank loan	-	-	7,500	7,500
Overdraft	2,604	198	-	2,802
Interest on loan & leases	237	-	133	370
	<u>18,561</u>	<u>367</u>	<u>7,982</u>	<u>26,910</u>

Notes to the Consolidated Financial Statements (continued)

26 Financial risk management (continued)

Company	Within 1 year	1-2 years	More than	Total
At 31 December 2018	£000	£000	2 years £000	£000
Trade and other payables	447	-	-	447
Intercompany payables	1,204	-	-	1,204
Bank loan	-	-	4,750	4,750
Interest on bank loan	102	41	20	163
Convertible loan notes	-	-	1,654	1,654
	<u>1,753</u>	<u>41</u>	<u>6,424</u>	<u>8,218</u>

Company	Within 1 year	1-2 years	More than	Total
At 31 December 2017	£000	£000	2 years £000	£000
Trade and other payables	78	-	-	78
Intercompany payables	1,178	-	-	1,178
Bank loan	-	-	7,500	7,500
Interest on bank loan	192	162	96	450
	<u>1,448</u>	<u>162</u>	<u>7,596</u>	<u>9,206</u>

27 Capital risk management

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

In order to maintain or adjust the capital structure, the Group has previously both issued new shares and borrowed using bank facilities. During the year to 31 December 2018 and post year end, the Group has also issued unsecured and secured loan notes. The Group monitors capital on the basis of the ratio of net debt to adjusted EBITDA. Net debt as at 31 December 2018 is calculated as total bank borrowings and loan notes (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, impairment charge, exceptional items, (loss)/gain on disposal of fixed assets and share-based payments.

Post year end, the revolving credit facility and overdraft provided by the bank, as referred to in note 23, were fully repaid by way of the issue of six year secured loan notes (the "Secured LNs"). The bank facilities had contained various covenants in relating to EBITDA, interest cover, net debt and cash flow, which the Group monitored on a quarterly basis. The loan note instrument under which the Secured LNs were issued does not contain any covenants, however, the Group continues to carefully monitor its capital position.

The Group adopts a risk-adverse position with respect to borrowings and maintains a significant amount of headroom to ensure that any unexpected situations do not create financial stress.

The Group has not proposed a dividend for the current and prior year.

Notes to the Consolidated Financial Statements (continued)

28 Called up share capital – Group and Company

Share capital	2018 Number	2017 Number
At 1 January – fully paid	200,729,121	190,902,721
Shares issued on subscription, 1 August 2018	20,000,000	-
Shares issued on placing, 21 August 2018	180,072,911	-
Shares issued on the acquisition of 365 ITMS	-	9,826,400
	<hr/>	<hr/>
In issue at 31 December – fully paid	400,802,032	200,729,121
	<hr/>	<hr/>
	2018 £	2017 £
<i>Allotted, called up and fully paid</i>		
Ordinary shares of 2.5p	10,020,050	5,018,228
	<hr/>	<hr/>
Shares classified in shareholders' funds	10,020,050	5,018,228
	<hr/>	<hr/>

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

The Company had 190,902,721 ordinary shares issued and fully paid up as at 1 January 2017. On 5 April 2017, the Company announced the acquisition of 365 ITMS Limited ("365ITMS") for a total consideration of £4.6 million, paid as £1.6 million in cash with the balance satisfied by the issue of 9,826,400 new ordinary shares. The Company had 200,729,121 ordinary shares issued and fully paid up as at 31 December 2017.

On 1 August 2018, the Company issued 20,000,000 new ordinary shares at a price of 2.5 pence per ordinary share as the initial tranche of a total fundraising of £5.5 million of which £1.8 million was raised by way of convertible loan notes. On 21 August 2018 a further 130,072,911 shares were issued at 2.5 pence per ordinary share to complete the fundraising. In addition, a further 50,000,000 ordinary shares were issued on that date by way of repayment of £1.25 million of the £2.0 million loan notes which had been issued in May 2018. The other £0.75 million of loan notes which were issued in May were repaid by way of the issue of convertible loan notes, giving the total of £2.55 million convertible loan notes in issue at the year end.

The Company had 400,802,032 ordinary shares issued and fully paid up as at 31 December 2018.

Dividends

The Directors do not propose a dividend for the year ended 31 December 2018 (2017: £nil).

29 Share-based payment plans

The share-based payment charge comprises:

	2018 £000	2017 £000
(Reversal of)/ equity-settled share-based charges arising from ESS/ CSOP options	(193)	107
(Reversal of)/ equity-settled share-based charges arising from hurdle share options	(13)	8
Equity-settled share-based charges arising from warrants	4	-
	<hr/>	<hr/>
Total (credit)/ charge	(202)	115
	<hr/>	<hr/>

Notes to the Consolidated Financial Statements *(continued)*

29 Share-based payment plans *(continued)*

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

In 2017, the Group introduced a Company Share Option Plan ("CSOP") for various senior managers and issued warrants to MXC following the acquisition of 365 ITMS. No options were issued to any of the Directors during 2017 or 2018.

On 1 August 2018, MXC were awarded warrants over 1,000,000 ordinary shares, representing 5% of the share capital issued in connection with the first tranche of the fundraising. On 21 August 2018 MXC were awarded warrants over 9,003,645 ordinary shares, representing 5% of the share capital issued in connection with the second tranche of the fundraising and the conversion of certain of the loan notes issued earlier in the year. All the warrants issued to MXC during the year have an exercise price of 2.5 pence.

	MXC warrants number of Options	CSOP/ESS number of options	Hurdle shares number of options	Total number of options
Options granted at 1 January 2017	10,036,456	3,017,083	666,666	13,720,205
Options granted in year	10,003,645	-	-	10,003,645
Options lapsed in year	-	(2,928,195)	(666,666)	(3,594,861)
Total Options granted at 31 December 2018	20,040,101	88,888	-	20,128,989

Options awarded under the ESS/ CSOP scheme lapse if the recipient resigns and in the case of redundancy, the options are either returned at no cost or purchased by the Company. There was only one employee remaining at the end of the year who held options under the ESS/ CSOP scheme which lapsed when he left the Company on 31 January 2019.

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

	2018 Number	2018 WAEP	2017 Number	2017 WAEP
Opening balance	13,720,205	£0.30	13,228,885	£0.30
Granted during the year	10,003,645	£0.03	491,320	£0.30
Lapsed during the year	(3,594,861)	£0.30	-	-
Closing balance	20,128,989	£0.17	13,720,205	£0.30

There were no options exercisable at 31 December 2018 (2017: nil).

The range of exercise prices for options outstanding at the end of the year was £0.025 - £0.30 (2017: £0.30).

The fair value of the equity-settled share options granted is estimated at the date of grant using an average of Black Scholes and an empirical model to take into account market conditions attaching to the options granted throughout the year. Volatility was calculated based upon the change in the daily share price of the company over the last 24 months. The key inputs into the model were:

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

Notes to the Consolidated Financial Statements (continued)

30 Pensions

The Group operates defined contribution pension schemes for eligible employees. The charge for the year ended 31 December 2018 relating to continuing operations is £0.6 million (continuing operations 2017: £0.6 million). An amount of £53k is included in creditors being outstanding contributions at 31 December 2018 (2017: £71k).

31 Related parties

Key management is considered to comprise only the Directors. Directors' emoluments, including share-based payments are disclosed in note 9. Social security costs in respect of Directors' emoluments were £44k (2017: £67k).

Andy Ross, Chief Executive Officer at 31 December 2017, was a partner of MXC Capital Limited ("MXC") until 31 July 2017. Ian Smith, Executive Director at 31 December 2018, is Chief Executive Officer and a substantial shareholder of MXC. MXC owned 43.1% of the issued share capital of the Company at 31 December 2018.

During the year, the Group and Company paid MXC Capital Markets LLP, a subsidiary of MXC, corporate finance advice and other services amounting to £nil (2017: £152,000) excluding VAT. In addition, the Group paid MXC Advisory Limited, a subsidiary of MXC, fees of £28,713 excluding VAT (2017: £11,667) in respect of the services of Ian Smith as Executive Director and the services of an Interim Chief Financial Officer for the year ended 31 December 2018 and in respect of the services of Andy Ross as Chief Executive Officer of the Group for the year ended 31 December 2017. Invoices totalling £101,031 were outstanding at 31 December 2018 (2017: £nil).

At 31 December 2018, in addition to owning shares in the Company, MXC Capital Limited held warrants over 20,040,101 shares in the Company (2017: 10,036,456 shares).

Max Royde, Non-Executive Director at 31 December 2018, is co-founder of Kestrel Partners LLP ("Kestrel"). During the year, Kestrel invoiced the Company £7,177 (2017: £nil) in respect of the services of Max Royde as Non-Executive Director. Invoices totalling £5,613 were outstanding at 31 December 2018 (2017: £nil).

The Company had the following balances with its subsidiary companies:

	2018 £000	2017 £000
Receivables		
IDE Group Limited	53,612	52,566
IDE Group Manage Limited	39	1,442
IDE Group Connect Limited	2,506	3,292
Assistance Genie Logiciel	161	161
IDE Group Voice Limited	3	-
IDE Group Protect Limited	9	-
IDE Group Financing Limited	8	-
Total	56,338	57,461

These balances were fully provided for at the year end.

	2018 £000	2017 £000
Payables		
Cupid.com inc	1,033	1,033
Castle Digital services inc	61	61
Selection Services Limited	61	61
Hooya Digital Limited	42	16
Connexions4London Limited	6	5
Aggregated Telecom Limited	1	2
Total	1,204	1,178

Notes to the Consolidated Financial Statements *(continued)*

32 Post balance sheet events

Issue of Loan Notes & Bank Repayment

In January 2019 the Company announced an issue of £10 million secured loan notes (the "Loan Notes"), the proceeds of which were used to repay IDE's £8.25 million debt facilities with National Westminster Bank plc ("Natwest") consisting of a revolving credit facility ("RCF") of £4.75 million and an overdraft of £3.5 million (together, the "Facilities") and to provide additional working capital for the Company. The Facilities were repaid in two tranches; £4.125 million in January 2019 and the remainder in March 2019.

The Loan Notes have a term of six years (the "Term") and an annual coupon of 12%, which is rolled up, compounded annually and payable at the end of the Term. The Loan Notes carry an arrangement fee of 2.5 per cent., payable at the end of Term, and an exit fee of 2.5 per cent., also payable at the end of the Term. The Loan Notes have first charge over the Company's assets. The Loan Notes can be redeemed at any time at the Company's option, however, should the Company opt to redeem the Loan Notes prior to the end of the Term, all interest due until the end of the Term will become payable, together with the arrangement and exit fees, upon such early redemption.

Part Surrender of Property Lease

Due to the reduction in staff over the year to 31 December 2018, a significant proportion of the Company's offices at Interchange, Croydon, were empty. Therefore, on 18 April 2019, IDE Group Manage Limited entered into an agreement for surrender and a deed of variation in relation to part of the property it leases at Interchange which has resulted in a reduction in the annual rent and service charge payable.