

IDE Group Holdings Plc.
("IDE Group" or the "Company")

Final Results

IDE Group Holdings plc., the mid-market network, cloud and IT Managed Services provider, today announces its audited results for the year ended 31 December 2017.

Highlights

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

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

Outlook

- Ongoing operational review expected to be finalised shortly
- Further planned Board and Executive changes expected to be announced along with the conclusion of the operational review
- Profitability in 2018 is expected to be significantly lower than 2017, but is expected to improve steadily throughout 2018 and beyond following implementation of the operational review
- Net debt of £10.3 million as at 31 March 2018 - further cost reductions and business efficiency initiatives to be implemented through 2018 and into 2019 to achieve profitability and cash generation goals
- Reorganisation of the business into two distinct Business Units, Platform Services and Managed Services

Bill Dobbie, Interim Non-Executive Chairman of IDE Group, commented: *“2017 has been a year of continued investment and building upon the foundational work that commenced in 2016. Concurrently with this investment, we delivered 18% organic revenue growth and achieved significant sales success. Fundamentally, this illustrates the competitiveness and relevance of our portfolio of products and services within our target market.*

We have broadened our portfolio of products and continued to train our teams to ensure that we are designing and delivering products that are specific to our customers’ needs.

Our intention for 2018 is to complete the integration of the three businesses we have acquired in the last two years, significantly reducing our cost bases and becoming more focused on sustainable, recurring margins than revenue growth.”

IDE Group Holdings Plc
Bill Dobbie, Interim Chairman
Julian Phipps, COO & CFO

Tel: +44 (0)344 874 1000

N+1 Singer
Nominated Adviser and Broker
Jen Boorer
Richard Kauffer

Tel: +44 (0)20 7496 3000

Alma PR Limited
Rebecca Sanders-Hewett
Robyn Fisher

Tel: +44 (0)20 8004 4218

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

Forward Looking Statement:

This announcement is based on information from unaudited management accounts and contains certain forward-looking statements with respect to the financial condition, performance, results of operations, and businesses of IDE Group Holdings plc. These statements and forecasts are neither promises nor guarantees but involve risk, uncertainty and assumptions because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These forward-looking statements are based on management's current expectations and are made only as at the date of this announcement. Except as required by law, IDE Group Holdings plc has no obligation to update the forward-looking statements or to correct any inaccuracies therein.

Chairman's statement

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

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

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

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

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

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

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

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

Bill Dobbie

Interim Non-Executive Chairman

Chief Operating Officer's review

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

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

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

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

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

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

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

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

While we made significant progress towards our long-term goals during the year, overall, profitability and cash generation have been impacted by a number of factors.

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

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

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

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

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

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

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

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

With our broader portfolio of products, and a market full of opportunity, we have the potential to improve performance through 2018. However, we must ensure the business has an efficient and sustainable operating model and underlying cost base. The changes we are currently undertaking will support these goals.

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

Julian Phipps

Chief Operating Officer

8 May 2018

Financial review

Corporate activity

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

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

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

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

Results for the year

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

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

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

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

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

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

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

Balance sheet

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

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

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

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

Dividend

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

Name change

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

Update and outlook for 2018

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

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

Going concern

The Directors have prepared detailed cash flow projections including sensitivity analysis on key assumptions. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance and the timing of key strategic events, show the Group will be able to operate within the level and conditions of available funding. Based on the level of support demonstrated by the equity raised to acquire 365 ITMS and

consolidating bank facilities during the year, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

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

Consolidated Income Statement for the year ended 31 December 2017

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

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

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

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

Statements of Financial Position

As at 31 December 2017

	Group	
	2017 £000	2016 £000
Non-current assets		
Property, plant and equipment	13,044	13,677
Intangible assets	55,350	60,301
Investments	-	-
Financial assets	89	85
	<u>68,483</u>	<u>74,063</u>
Current assets		
Trade and other receivables	15,177	8,918
Stock	366	-
Cash and cash equivalents	1,106	1,132
	<u>16,649</u>	<u>10,050</u>
Total assets	<u>85,132</u>	<u>84,113</u>
Current liabilities		
Trade and other payables	15,429	9,036
Deferred income	6,405	5,663
Borrowings	2,895	764
Provisions	1,157	2,323
Tax payable	-	9
	<u>25,886</u>	<u>17,795</u>
Non-current liabilities		
Deferred income	341	-
Borrowings	7,920	5,733
Provisions	577	666
Deferred tax liabilities	5,115	6,503
	<u>13,953</u>	<u>12,902</u>

	Group	
	2017 £000	2016 £000
Total liabilities	39,839	30,697
Net assets	45,293	53,416
Equity attributable to equity holders of the parent		
Share capital	5,018	4,773
Share premium	35,439	32,684
Retained earnings	4,963	16,089
Foreign currency translation reserve	(127)	(130)
Total equity	45,293	53,416

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

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

Statements of Cash Flows for the year ended 31 December 2017

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

Publication of non-statutory accounts

This summary does not constitute statutory accounts within the meaning of the Companies Act 2006. It is an extract from the full accounts for the year ended 31 December 2017 on which the auditor has expressed an unqualified opinion and does not include any statement under section 498 of the Companies Act 2006. The full accounts contain a detailed statement of the accounting policies which have been used to prepare this summary. The accounts will be posted to shareholders on or before 25 May 2018 and subsequently filed at Companies House.

A full set of the audited statutory accounts will be available at www.idegroup.com/investors/financial-information

Selected notes to the Consolidated Financial Statements

1 Accounting policies

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

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

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

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

1.1 Basis of preparation

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

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

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

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

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

1.2 Basis of Consolidation

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

from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

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

2 Segment reporting

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

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

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

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

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

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

3 Exceptional costs

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

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

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

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

4 Business combinations

365 ITMS Limited

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

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

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

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

The consideration was satisfied as follows:

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

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

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

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

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

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

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

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

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

5 Finance income and costs

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

6 Taxation

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

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

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

Reconciliation of the total income tax credit

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

(b) Deferred tax liability

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

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

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

7 Earnings per share

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

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

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

8 Trade and other receivables

Current	2017	2016
	£000	£000
Trade receivables	8,955	6,328
Less provision for impairment of trade receivables	(380)	(415)
	<hr/>	<hr/>
Trade receivables – net	8,575	5,913
Accrued income	3,030	671
Prepayments and other debtors	3,572	1,553
	<hr/>	<hr/>
	15,177	8,918
	<hr/> <hr/>	<hr/> <hr/>

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

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

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

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

9 Trade and other payables

	Group	
	2017	2016
	£000	£000
Current		
Trade payables	8,766	5,715
Amounts due to subsidiary undertakings	-	-
Other payables	142	144
Taxation and social security	1,511	1,254
Accruals	5,010	1,923
	15,429	9,036

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

10 Borrowings

	Group	
	2017	2016
	£000	£000
Non-current		
Bank loan	7,500	5,500
Unamortised loan arrangement fee	(98)	(89)
Finance leases	518	322
	7,920	5,733

	Group	
	2017	2016
	£000	£000
Current		
Bank overdraft	2,604	-
Finance Leases	291	764
	2,895	764

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

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

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

The present value of finance lease liabilities is as follows

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

11 Called up share capital – Group and Company

Share capital

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

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

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

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

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

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

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

Dividends

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

12 Related parties

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

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

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

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

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

13 Post balance sheet events

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