IDE Group Holdings plc

Annual report and financial statements
Registered number SC368538
Year ended 31 December 2019

Contents

Directors and Advisers

Directors

Andy Parker (Non-Executive Chairman)
Ian Smith (Executive Director)
Sebastian White (Non-Executive Director)

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Company Number SC368538

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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 £28.2 million (2018: £41.1 million).
- Gross profit margins increased to 22.8% (2018: 16.1%). Gross profit margins before the impact of IFRS 16 are 22.1%.
- Adjusted EBITDA** profit £1.1 million (2018: loss of £3.9 million). The adjusted EBITDA of £1.1 million has benefited by £0.9 million due to the adoption of IFRS 16 with costs now taken in depreciation and finance costs.
- Additional funding raised of £11.5 million in the form of six-year secured loan notes from existing shareholders.
- No external debt other than with key shareholders.
- Stable leadership and consistent senior management team in place.
- Partnership channel delivering revenues from public sector.
- Strong partnership and direct customer pipeline of opportunities.

** 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

Chairman's Statement

2019 – a year of strategic realignment

This year has been pivotal for the Group, and whilst we saw a significant drop in revenues, we saw an increase in adjusted EBITDA. This confirms that the cost reductions and rationalisation of loss-making business has moved the Group to a better trading position from which to now grow.

After a period of consolidation and reflection we have embarked on a course for long term growth that will capitalise on our strengths and develop propositions that meet client needs. We have a strong story to tell about how outsourced managed and lifecycle services can bring value to organisations. We are also seeing increasing success when introducing clients to the breadth of our services including datacentre, cloud and connectivity.

The Board decided that it is time for a more clearly articulated services offer and simplified business structure.

Our challenges in 2019

We had some major challenges to address during the year:

- Securing renewals of key customers
- Consolidating our data centre estate
- Developing a new strategy for Connect
- Rebuilding our partner and channel relationships
- Exploiting new sales opportunities

What has gone well?

Against a backdrop of economic and political uncertainty, we have secured some key customer renewals and won new clients particularly in managed services.

We retained our profitable key direct customers to whom we provide user support desk, managed services, on-site and field engineering.

On-going projects delivered by our lifecycle fulfilment centre were particularly strong and we have seen strong and consistent improvements in that area, with our major customer for that service renewing mid-year.

We began a comprehensive review of the Connect business during the year in order to develop a new strategy for this division after recent declines in revenue and complexities in its operations. I am pleased to provide an update that a major consolidation of the network and datacentres in which we operate is underway. This is a significant project which will take time to conclude, but we are confident that it will provide the foundations for profitable growth of our datacentre, cloud and connectivity business.

Our relationship with third party system integrators has both been refreshed and reinvigorated, and we have seen an increase in opportunities both in service provision and project work through this channel particularly into the public sector; we are delivering IT services into both a number of Central Government departments and Blue Light clients. We have ended the year with several long-term partnerships which are providing us with new sales opportunities.

What has changed?

During 2018 a key focus was on reducing the Group's overheads, headcount, and infrastructure footprint in order to provide a more sustainable cost base, and stabilising the business following a period of upheaval and uncertainty.

We did, unfortunately, see some customer losses during the year; lifecycle services are bolstered by project work which was lower in 2019 than the prior year, and subsequent projects were delayed into 2020. In our Connect business the customer churn was at an unacceptable level with some larger account losses in cloud services; this in part resulted in the programme to consolidate the datacentre estate and review our pricing strategy for Connect services.

In 2019, whilst managing costs has remained a key driver, we have focussed attention onto customers. We gave focus to individual customer and project profitability, continued to provide excellent service to existing customers as well as clearly articulating our value propositions to win new business.

Chairman's Statement *(continued)*

Securing and developing our partnership channels has proven to be successful with several new customer wins in the public sector; and we have seen a positive affirmation in direct business with key account renewals.

COVID-19

The unprecedented and rapidly changing circumstances surrounding the COVID-19 outbreak provide an uncertain economic landscape and increased risk aversion in the financial markets. Whilst it is difficult to predict accurately the potential long-term consequences, we remain vigilant and, in common with all businesses, are closely monitoring the situation. The wellbeing of staff and the customers with whom they interact is our overriding priority. We have instituted measures to ensure that our people can work safely and, in most cases, remotely, ensuring the continuity of the business. We have rigorously stress tested our financial forecasts for a range of potential outcomes associated with COVID-19 and we are confident that the Group is well positioned to withstand any negative impact. To date there has been no material effect on the business.

Results

Revenue fell by 32% across the Group to £28.2 million for the full year (2018: £41.1 million), but significantly we have improved gross profit margins to 23%, which before the impact of IFRS 16 are 22% (2018: 16%), and the resulting gross profit has remained flat year-on-year at £6.4 million (2018: £6.6 million).

The significant work undertaken to reduce the Group costs underpins the improvement in gross margins, and allied to a reduction in overheads (excluding non-underlying costs, impairment, amortisation and depreciation) by some 50% to £5.3 million (2018: £10 million) has resulted in the adjusted EBITDA moving from loss to profit of £1.1 million (2018: loss of £3.9 million).

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Adjusted EBITDA	1,143	(3,886)
Exceptional items	(588)	(2,368)
Depreciation	(3,241)	(2,848)
Amortisation	(3,289)	(3,290)
Impairment charge on goodwill	(3,000)	(17,528)
Loss on disposal of fixed assets	-	(441)
Charges for share-based payments	(86)	202
Operating loss	(9,061)	(30,159)
Finance costs	(1,827)	(389)
Income tax	2,411	1,089
Loss for the year from continuing operations	(8,477)	(29,459)

The net loss for the year from continuing operations is £8.5 million (2018: loss £29.5 million), after a £3 million impairment charge (2018: £17.5 million against goodwill and acquired intangible assets)

The Group continues to improve its cash generation and has maintained strong working capital management, this along with the additional loan notes resulted in the Group paying off its third-party bank debt and finance lease commitments.

Chairman's Statement *(continued)*

Profitability of divisions

Manage

Manage encompasses our service lines broadly covering field and site engineering, projects and lifecycle, network monitoring and service desk support.

2019 saw revenues fall to £14.7 million (2018: £27.2 million), this was mostly down to novation of some £3.4 million of contracts over to Connect, £4.9 million of lower project and lifecycle services, and a further £3.7 million reduction in engineering and managed services; however, we have seen an improvement in gross profit margins to 31% (2018: 21%) and a reduction in overheads by over 50%. The sum of these moved adjusted EBITDA from a loss in the prior year to a profit in 2019 of £1.1 million (2018: loss of £3.1 million). The adjusted EBITDA of £1.1 million has benefited by £0.6 million due to the adoption of IFRS 16 with costs now taken in depreciation and finance costs.

This encouraging improvement underpins that this division is approaching the right-size, further consolidation of field engineering is underway, and that profitable growth can be achieved in 2020.

Connect

Connect business services are broadly networking and connectivity, cloud and hosting, and voice/telephony.

Revenues in Connect were flat year-on-year at £14.6 million (2018: £14.6 million); whilst we were disappointed to lose some of our larger cloud customers but benefited from contracts novated from Manage, and the net result was an improvement in gross margins to 13% (2018: 5%). There has been an increase in overheads to £4.5 million (2018: £3.3 million), including a £0.3 million benefit of adopting IFRS 16 in 2019. An impairment charge against intangible assets of £3.0 million (2018: £6.9 million) was incurred following an annual impairment review which indicates that Connect is still underperforming. The resulting adjusted EBITDA improved to £0.7 million (2018: loss £0.4 million). The adjusted EBITDA of £0.7 million has benefited by £0.3 million due to the adoption of IFRS 16 with costs now taken in depreciation and finance costs.

Our objectives in 2020 are to further reduce costs through the datacentre and network consolidation and leverage these commercial improvements into more competitive pricing to win new and extend existing business opportunities.

Central

There are £0.9 million of overhead costs attributable to group overheads (mainly relating to plc board and listing costs, associated legal and professional fees, and share based payment charges), of which £0.7 million reduce Group adjusted EBITDA

People

The management team made consistent progress in simplifying the structure of the business and aligning services better to support our clients.

The Group executed on further headcount reductions during the year ending the period with 262 FTE (2018: 303 FTE).

The board would like to recognise and thank its employees who have worked hard to deliver excellent client service and retain existing key clients.

What will we keep doing?

We are improving our customer and partner relationships and that has shown in our longer-term contracts and customer renewals in 2019. Our focus for 2020 is on developing those relationships and the skills and processes needed to manage accounts in a consistent and productive way by placing account management and service delivery at the heart of the business.

We will continue to generate revenue and cash but will also ensure that our business quality improves in terms of client fit, margin and sustainability.

Chairman's Statement *(continued)*

What will we do better?

We have several priorities for the future, highlighted ones being:

- Improvements to our Governance in line with the Quoted Companies Alliance Corporate Governance Code.
- Complete our network and datacentre consolidation.
- Land and expand contracts through our partnership channel.
- Win more direct customers >£1m per annum contract value.
- Develop and deliver our datacentre, cloud and connectivity offering.
- Remove business and operational complexities thereby reducing overheads.

We are currently assessing the technology and market landscape and will evaluate our options in 2020. However, at our heart, we are a business that depends on our own talented people delivering best-of-class technology solutions. We need to build a strong sales force to support our group of knowledgeable experts.

Our strategy of a more integrated offering across service lines requires some investment in training and skills to ensure that we can deliver for our clients and our investors.

Strategy

Having been greatly encouraged by the opportunities identified in the partnership channel & lifecycle businesses, and strong direct customers the Board has outlined a strategy to provide better alignment between our operating businesses, customer needs and driving competitive advantage as we widen the client base to which we offer the full portfolio of our services.

Additionally, changes to our internal operating model will assure consistent quality in our relationship and account management whilst maintaining our strength in financial management.

Our aim is to drive further operating margin improvement and deliver consistent growth in earnings in the medium and long-term. This will be supported by forthcoming developments in marketing and lead generation activities we plan to implement in 2020.

Financing and dividend

During the year, the Company issued £11.5 million of secured loan notes the proceeds of which were used to repay the Group's debt facilities with National Westminster Bank, meet its finance lease obligations, and provide additional working capital.

Given the continued losses the Board is not proposing to declare a dividend at this time but will keep this policy under review.

Current trading and outlook

Trading in the current financial year remains broadly in line with management expectations, although the mix has changed due to the current COVID-19 crisis. We have won and implemented additional projects in the Managed division supporting mobile working across a number of our clients, offset by the expected pipeline of projects being deferred into the second half. The Board is confident in its strategy and continues to enhance operational efficiency in our core services and strengthen the senior management team in order to deliver an improved trajectory through 2020 and beyond.

Andy Parker

Andy Parker
Non-Executive Chairman
13 July 2020

Financial Review

The Group reported total revenues for the year to 31 December 2019 of £28.2 million, down from £41.1 million in 2018 and gross profit of £6.4 million (2018: £6.6 million). The gross profit of £6.4 million has benefited by £0.2 million due to the adoption of IFRS 16 with costs now taken in depreciation and finance costs.

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 for the year to 31 December 2019 was a profit of £1.1 million (2018: loss £3.9 million). The adjusted EBITDA of £1.1 million has benefited by £0.9 million due to the adoption of IFRS 16.

A detailed review of the business is set out in the Chairman's Statement and this 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

Discontinued operations

In 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, 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 showed a loss on discontinued operations of £3.2m and a profit on disposal of subsidiary of £0.7 million. Further losses of £0.2 million were identified in the current year on contracts novated as part of the disposal.

Manage

There was a decrease in revenues to £14.7 million (2018: £26.7 million), which is attributable to £3.4 million value of contracts novated to Connect, £4.9 million of lower project and lifecycle services, and a further £3.7 million reduction in engineering and managed services suffered from the loss of customer contracts or reduction in scope of services.

For the year we have seen an improvement in gross profit margins to 31%, which before the benefit of IFRS 16 is 28% (2018: 21%) as a result of the services mix and operational efficiencies, and a reduction in overheads by over 50% to £7.1 million (2018: £15.5 million), which is the result of reduced headcount, costs moving to Connect alongside novated contracts, and stringent cost saving initiatives.

Adjusted EBITDA attributable to Manage has moved from a loss in the prior year to a profit in 2019 of £1.1 million (2018: loss of £3.1 million). The adjusted EBITDA of £1.1 million has benefited by £0.6 million due to the adoption of IFRS 16.

Connect

Revenues in Connect are flat year-on-year at £14.6 million (2018: £14.6 million). This net neutral position reflects additional revenues from Manage contracts novated of £3.4 million against customer losses of a similar value.

However, there was an improvement in gross margins to 13% (2018: 5%), owing to savings in infrastructure costs, and changes in the customer and services mix.

There has been an increase in overheads to £4.5 million (2018: £3.3 million), and an impairment charge against intangible assets of £3.0 million (2018: £6.9 million) was incurred following an annual impairment review. The overheads of £4.5 million have benefited by £0.3 million due to the adoption of IFRS 16.

Adjusted EBITDA attributable to Connect has improved to £0.7 million (2018: loss £0.4 million). The adjusted EBITDA of £0.7 million has benefited by £0.3 million due to the adoption of IFRS 16.

Financial Review *(continued)*

Exceptional items

Non-underlying items, relating to restructuring and reorganisation, and costs attributable to a premises break-in, amount to £0.6 million in the year (2018: £2.4 million).

Finance costs

After incurring net finance costs of £1.8 million relating to interest and arrangement fees for loan notes, leases and bank debt (2018: £0.4 million), the loss before tax is £10.9 million (2018: loss of £30.5 million)

Taxation

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 £2.4 million (2018: £1.1 million)

The Group therefore reported a loss after tax from continuing operations of £8.5 million (2018: loss of £29.5 million), which equates to a basic loss per share of 2.12 pence (2018: loss per share of 11.97 pence).

Statement of Financial Position

Non-current assets

The Group has property, plant and equipment of £9.7 million (2018: £9.8 million) all of which are subject to depreciation as per the policies set out in the accompanying financial statements. During the year there were additions of £3.1 million, £2.9 million of this is in relation to the IFRS16 transition (2018: additions £0.6 million).

Further, intangible assets of goodwill, trademarks, capitalised technology and customer contracts are £21.1 million (2018: £27.4 million) and are subject to amortisation as per the policies set out in the accompanying financial statements. There was a goodwill impairment charge of £3m in 2019 relating to the recoverability against future cashflows from IDE Group Connect (2018: £17.5 million). Details are shown in note 14.

Trade and other receivables

Trade and other receivables reflect revenue reductions in comparison to the previous year at £7.6 million (2018: £8.9 million) including trade receivables of £5.4 million (2018: £6.4 million) after a credit loss provision of £0.6 million (2018: £0.7 million). Whilst the overall reduction in trade receivables can be attributed to the fall in year-on-year revenues, there have been reductions resulting from improved customer payments and an improvement in the aged profile resulting in lower credit loss provisions.

Trade and other payables

Trade and other payables amounted to £7.6 million (2018: £7.7 million), including trade payables of £5.6 million (2018: £4.9 million) and accruals of £1.3 million (2018: £1.8 million). Third party suppliers' costs, which are being reduced where possible, remain fairly flat year-on-year.

Contract liabilities arise from customers being invoiced in advance of services delivered, in accordance with individual contractual terms, at the balance sheet date this amounted to £1.9 million (2018: £3.0 million), the decrease reflects the reduction in overall revenues as well as the mix of customers' contractual obligations for payment.

Cashflow and net debt

Cash generated from operating activities during the year was £0.4 million (2018 cash used £5.8 million). Losses for the year saw a material improvement to £8.7 million loss (2018: loss of £32.6 million), and working capital reduced to £0.3 million (2018: £3.2 million).The Group invested £0.2 million (2018: £0.3 million) in fixed assets and net new financing amounted to £3.7 million (2018: £4.2 million). The net result is that as at 31 December 2019 there were no bank borrowings or overdraft debt and the cash balance was £0.7 million (2018: overdraft of £2.9 million).

Financial Review *(continued)*

Cashflow and net debt *(continued)*

During the year the Company raised £11.5 million by way of an issue of secured loan notes ("Loan Notes") in three tranches: one in January 2019, the second in March 2019 and the third in December 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 the revolving credit facility of £4.75 million and overdraft of £3.5 million provided by 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.

Dividend

The Directors do not propose a dividend in respect of the current financial year (2018: £nil).

Update and outlook for 2020

Following the cost reduction programme started in 2018, and a renewed focus on customer retention and service delivery, in order to drive increased profitability and cash generation; the Group ended the year in a much stronger position than it started it, with a strong and consistent leadership team, an appropriate cost base and clear focus on operational execution and customer service.

The additional refinancing 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 an improvement in the pipeline of opportunities across the business both with existing and new customers and the Group has been trading at acceptable levels of profitably in the year to date.

The COVID-19 outbreak has presented the Group with an unexpected new set of challenges. On a macroeconomic level, it is too early to predict the medium-term impact on global and regional economies. The UK government has announced an unprecedented £100 billion+ fiscal benefits package to help cushion the impact on jobs and public and private sector industries. Although, as yet, the consequences of COVID-19 on the Group have been limited, it does have the potential to impact the UK economy, with the continued closure of 'non-essential' businesses, although with the easing of the COVID-19 lock down seen in early July the impact on the Group has been temporary and limited; to date IT managed services have remained buoyant during the UK-wide lock down, with increased reliance on mobile working and the need to facilitate customers' staff working remotely.

The Board remains confident of the Group's future prospects.

Going concern

The Directors have taken advantage of the Government's Job Retention Scheme to furlough some staff members during the COVID-19 lockdown period, as well as senior staff taking a short-term 20% salary reduction, and also deferment of PAYE and VAT liabilities. There has been increased demand for lifecycle services which necessitated an increase in shifts and production, and this has offset minor reductions in user support desk activities.

The Directors have prepared detailed cash flow projections; these projections, considering reasonably possible changes in trading performance and the timing of key strategic events, including COVID-19, show the Group expects to operate within the level and conditions of available funding. The directors note, however, that although the cash flow projections show that the group expects to have sufficient cash resources throughout the forecast period, the levels of cash fluctuate and at times in the forecast period are relatively low. The continuing Covid-19 pandemic creates added uncertainties for the Group. Any reasonably possible deviation from the forecast cash inflows could result in the Group requiring additional funding.

The directors have discussed the future cashflows with two of the Group's major shareholders who are represented on the Board and, furthermore, note the continued support of these shareholders, as demonstrated by the refinancing during the year. In reaching their conclusion on the going concern assumption, the directors note and rely on the letter of support provided by MXC Capital Limited, in which they undertake to continue to provide such financial support needed for continued operations for a period not less than one year from the date of approval of these financial statements. The directors having made the necessary inquiries, have satisfied themselves of MXC Capital's ability to provide such finance if necessary. After making enquiries and having regard to the FRC's Guidance to Companies on COVID-19 issued in March 2020, 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. The year under review was a challenging one for the business with overall revenues declining year-on-year, however gross margin improved and adjusted EBITDA* moved from a loss to a profit. 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 2019, the Board comprised 3 Directors (2018: 3); all of which are male (2018: all of which were male). At 31 December 2019, the Group had 262 employees (including Directors) (2018: 303), of which 202 (2018: 232) are male and 60 (2018: 71) 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 23 contains details of financial risks.

COVID-19

The COVID-19 outbreak has the potential to cause significant disruption to the UK economy and, while the financial impact of the Group is difficult to quantify, several scenarios have been examined in respect of the financial impact of the COVID-19 outbreak on the businesses. During the lock-down period the Group saw some reductions in user support desk activities, which were mitigated by furloughing staff through the Job Retention Scheme. However, data centre and connectivity business remained at expected levels, and we saw a significant increase in lifecycle services as certain customers ramped up deployment of equipment to facilitate their own staff working remotely,

We have continued to see new opportunities during lock-down, and believe that the demand for centralised managed services, cloud, user support desk, mobile working & collaboration, and over-arching business continuity solutions will provide good opportunities during the remainder of 2020. However, the Board continues to monitor the situation and act to mitigate any financial impact which arises from delays to projects or possible reduction in IT managed services provision.

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 service levels.

Exit of UK from European Union

The UK left the European Union post the Group's year end and entered a 12-month transition period (commonly referred to as "Brexit"). Whilst negotiations between the UK and the European Union continue the 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 is likely to lose access to the single European Union market and the global trade deals negotiated by the European Union on behalf of its members.

Strategic Report *(continued)*

Exit of UK from European Union *(continued)*

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.

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, the restructuring programme continued which resulted in more members of staff being made redundant and other members of staff moving into new roles. For those who remain there are several 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 service lines, 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.

Strategic Report *(continued)*

s.172 Companies Act 2006: Statement of Directors' Duties to Stakeholders

The Directors of the company have a duty to promote the success of the company. A director of the company must act in the way they consider, in good faith, to promote the success of the company for the benefit of its members, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company to maintain a reputation for high standards of business conduct; and
- the need to act fairly between members of the Company.

The Directors are committed to developing and maintaining a governance framework that is appropriate to the business and supports effective decision making coupled with robust oversight of risks and internal controls.

Fairness

The Board's policy is to behave responsibly, ethically and fairly at all times towards shareholders and other external stakeholders, in line with our Company values, and to ensure that our management teams operate the business in a responsible and fair manner and to the highest standards of business conduct and good governance.

Engagement with Employees

The company continues to focus on building channels that ensure the company is effectively listening and responding to employees. In doing so, the company can identify opportunities to better meet employee needs, help them with their career progression and build the skills required to continue helping our business thrive. During the period, the company focused on internal performance management and development to ensure employees have clear objectives and an understanding of their contribution to our overall business success and goals.

The company strives to create a diverse and inclusive working environment where every employee feels welcome and can do their best work. We believe in the benefits of diversity and the importance of bringing a wide range of skills, experience and perspectives into our business. The directors continually work with senior management to promote the Company's values and to monitor attitudes and behaviours to ensure that they are consistent with our culture.

Engagement with suppliers, customers and others in a business relationship with the Company

Suppliers

As a company dependent on suppliers and partners to deliver services for all of our stakeholders, we strive to manage these relationships as closely as possible to ensure they meet our standards. The Company is committed to ensuring the highest standards and quality across our operations and require both our suppliers and partners to operate to the same high standards.

Customers

Our goal is to deliver best-in-class service for all of our customers and to be a genuine managed services provider by seamlessly acting as the outsourced provider of services to our customers and their staff.

Environment

The Group acknowledges its responsibilities for environmental matters and where practicable adopts environmentally sound policies in its working practices, such as recycling paper and packaging waste and using specialist recyclers of scrap telecommunications and IT equipment. A major consideration when replacing company vehicles is their impact on the environment.

The Group also makes use of in-house collaboration tools to reduce the need for travel to meetings and operates flexible working practices where possible, reducing the environmental impact of commuting. Positive experience of an increase in these activities during the COVID-19 pandemic suggests these will continue at a higher level after the end of the pandemic than before.

Strategic Report *(continued)*

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.

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 whose operating model is similar to our own, would increase earnings, have high recurring revenues and would not over-leverage the Group.

Despite the challenges we met in 2019, 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

Ian Smith
Executive Director
13 July 2020

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 2019 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 2019 (2018: £nil). The Directors do not recommend the payment of a dividend at 31 December 2019 (2018: £nil).

Directors

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

Ian Smith
Andy Parker
Matthew ("Max") Royde (resigned 13 November 2019)
Sebastian White (appointed 12 November 2019)

Company Secretary

Delgany Corporate Services Limited

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

Andy Parker – Non-Executive Chairman

On 10 August 2018 Andy was appointed as Non-Executive Director, on 5 October 2018 was appointed as Non-Executive Chairman and for the period 15 October 2018 to 21 May 2020 held the position of Executive Chairman. On 21 May 2020 Andy took the role of Non-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.

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.

Directors' Report *(continued)*

Sebastian White - Non-Executive Director

On 12 November 2019, Sebastian was appointed as Non-Executive Director.

Sebastian is an experienced investment and company director at Kestrel Partners LLP, a London based fund management business whose clients are significant shareholders of IDE Group. He has deep experience of the communications and hosting sector following 14 years as head of corporate development in a mid-market AIM listed plc.

Sebastian is a member 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 Sebastian White 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 2019, together with their interests at 31 December 2018 were as follows:

	Number of ordinary shares	
	31 December 2019	31 December 2018
Andy Parker	-	-
Ian Smith*	-	-
Sebastian White**	-	-

** Ian Smith is Chief Executive Officer and a substantial shareholder of MXC Capital Limited which as at 31 December 2019 held 172,951,125 ordinary shares (31 December 2018: 172,811,125 ordinary shares)*

*** Sebastian White is the Investment Director of Kestrel Partners LLP, whose clients held in total 32,627,340 ordinary shares as at 31 December 2019 (31 December 2018: 36,497,252 ordinary shares)*

Directors' Report *(continued)*

Substantial Shareholders

At 31 December 2019 and at 27 March 2020, 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:

Shareholder name	31 December 2019 Number	31 December 2019 %	27 March 2020 Number	27 March 2020 %
MXC Capital Limited[1]	172,951,125	43.2	172,931,125	43.1
Bill Dobbie[2]	55,476,117	13.8	55,486,117	13.8
Richard Griffiths	34,022,561	8.5	32,772,561	8.2
Kestrel Partners LLP[3]	32,627,340	8.1	32,628,810	8.1
LMS Capital	18,161,835	4.5	18,161,835	4.5
Matt Hawkins[4]	16,370,627	4.1	16,370,627	4.1

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. Sebastian White, Non-Executive Director of the Company, is Investment Director 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 2019 (2018: nil).

Auditor

RSM UK Audit LLP were appointed as auditor during the year. A resolution is to be proposed at the forthcoming AGM for the re-appointment of RSM UK Audit LLP as auditor 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 24 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.

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 £0.6 million (2018: £0.7 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.

Employee involvement

The flow of information to staff has been maintained by our staff email bulletins and staff meetings. Members of the management team regularly discuss matters of current interest and concern to the business with members of staff; in particular in regard to providing information on performance indicators, encouraging employee participation and engendering a common awareness of financial and economic factors which affect the company's performance

The company continues to focus on building channels that ensure the company is effectively listening and responding to employees. In doing so, the company can identify opportunities to better meet employee needs and interests, reflecting these where possible in the principal decisions taken by the company.

Disabled persons

The company is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. Management actively pursues both the employment of disabled persons whenever a suitable vacancy arises and the continued employment and retraining of employees who become disabled whilst employed by the company. Particular attention is given to training, career development and promotion of disabled employees with a view to encouraging them to play an active role in the development of the company.

Disclosure of Information to the Auditor

Each of the Directors who was 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 auditor is 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 auditor is aware of that information.

Subsequent Events

Full details of post balance sheet events are included in note 30 to the consolidated financial statements.

Future Developments

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

On behalf of the Board

Ian Smith
Executive Director
13 July 2020

24 Dublin Street
Edinburgh

Remuneration Committee Report

Remuneration Committee

At 31 December 2019, the Remuneration Committee comprised Andy Parker (Chair), Ian Smith and Seb White

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 (2018: £30,000) for a Non-Executive Director and £50,000 for a Non-Executive Chairman. Jonathan Watts stepped down from the board in January 2018 and was paid in lieu of notice.

Directors' emoluments

For Directors who held office during the year, emoluments for the year ended 31 December 2019 were as follows:

	Salary/fees £	Benefits £	Pension £	**2019 total £**	2018 total £
Executive					
Andy Ross	-	-	-	-	141,144
Julian Phipps	-	-	-	-	92,870
Ian Smith[1]	50,000	-	-	50,000	29,167
Andy Parker	150,000	-	-	150,000	38,469
Non-Executive					
Jonathan Watts	-	-	-	-	16,668
Bill Dobbie	-	-	-	-	20,000
Katherine Ward	-	-	-	-	23,334
Max Royde[2]	26,048	-	-	26,048	7,177
Sebastian White[2]	3,952	-	-	3,952	-
Total	230,000	-	-	230,000	368,829

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 and Sebastian White were paid to Kestrel Partners LLP

Remuneration Committee Report *(continued)*

The Executive Directors' salaries are paid by 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.

Andy Parker
Chair, Remuneration Committee
On behalf of the Board

13 July 2020

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 in 2018 (the "Strategic and Operational Review"). This resulted in a revised business model and strategy, followed by a period of strategic realignment in 2019. The Group's strategy is set out in the Strategic Report on page 10. The Chairman's Statement on page 3 and Financial Review on page 7 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 2019 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 Group's 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. Work has continued on a cost reduction programme within these operations with a focus on right-sizing the Group to enable it to trade profitably. With this substantially complete 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, Non-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 Sebastian White (Non-Executive Director) for Kestrel Partners LLP. Both Ian and Sebastian 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 in 2018 followed by a period of strategic realignment in 2019 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. The Board is currently comprised of one Executive and two Non-Executive Directors, and during the year ended 31 December 2019, it was supported by an interim Chief Financial Officer and other senior managers, and it oversees and implements the Company's corporate governance programme.

As Non-Executive Chairman, Andy Parker is responsible for the Company's approach to corporate governance and the application of the principles of the QCA Code. As Andy was previously Executive Chairman of the Company, until he stepped down from the role in 2020, he is not considered to be an independent director.

Ian Smith is the Executive Director, and whilst he holds no direct 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.

Sebastian White was appointed Non-Executive Director in November 2019. As Investment Director of Kestrel Partners LLP, a London based fund management business whose clients are significant shareholders of IDE Group, Sebastian is not considered to be independent.

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 previous years where there were two independent directors. However, the Group has recently undergone significant change and for the majority of 2019 the focus has been 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.

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 and execute on 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 one Executive Director and two Non-Executive Directors, 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.

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 the 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 a Chief Financial Officer who is not a member of the Board. The Chief Financial Officer, a qualified accountant, works closely with the Board and is managing financial procedures and controls. The Board believes that, with the support of the chief financial officer and the finance team, its members have sufficient financial experience to manage the Group's financial function.

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 against budget as well as by the success of the strategy as set by the Board. The Board meets regularly 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 are required to retire by rotation and seek re-election every three years.

Departures from the Code

As part of the strategic and operational review in 2018, 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. 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 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 in 2018 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 Group 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 Group's culture and values are Collaboration, Respect, Excellence, Speed, Trust and Accountability, known to the Company's employees as CRESTA. Information about how the Group'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 Company recognises that its lack of independent directors does not comply with the standards of the QCA Corporate Governance Code in terms of composition of the Board and its Committees. The Board recognises the need for at least one independent director and is looking to find appropriate candidates to fulfil that role and enhance its governance structures and processes.

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 a firm of external 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 recent years which have been 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 regular basis with additional meetings or conference calls held when required during the year, for example in relation to significant events. Each of the current Directors has attended every meeting and call since their appointment.

Remuneration Committee meetings are held at least annually, with further ad hoc meetings called as required, all Remuneration Committee members attended 2019 and post year end meetings.

Audit Committee meetings are held bi-annually to review interim and full year results, with further ad hoc meetings to agree audit planning. All Audit Committee meetings in relation to the audit for the year ended 31 December 2019 were attended by all Audit Committee members.

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare group and company financial statements for each financial year. The directors are required by the AIM Rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the company financial statements in accordance with IFRS as adopted by the EU.

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

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

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

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

c. state whether they have been prepared in accordance with IFRSs adopted by the EU;

d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the IDE Group Holdings plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Ian Smith
Executive Director
On behalf of the Board

13 July 2020

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 2019 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 their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, 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 2019 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 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 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 SME 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.

Summary of our audit approach

Key audit matters	**Group** • Incremental borrowing rate applied on initial application of IFRS 16 • Impairment of intangible assets **Parent Company** • Impairment of intercompany receivables
Materiality	**Group** • Overall materiality: £367,000 (2018: £440,000). • Performance materiality: £275,000 (2018: £308,000). **Parent Company** • Overall materiality: £351,000 (2018: £418,000) • Performance materiality: £263,000 (2018: 292,000)
Scope	Our audit procedures covered 100% of revenue, 99.9% of net assets and 99.2% of loss before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company 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 group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Incremental borrowing rate applied on initial application of IFRS 16

Key audit matter description	'IFRS 16 – Leases' became effective for annual reporting periods beginning on or after 1 January 2019. The application of the new standard gives rise to right of use ("ROU") assets of £5.5 million and a corresponding increase in lease liabilities of £5.5 million, as shown in note 1.25. The group applied the modified retrospective approach for the transition accounting. As the interest rate implicit in the leases could not be readily determined, the lessee's incremental borrowing rate ("IBR") was used to measure the lease liabilities and ROU assets. The assessment of the IBR involves the exercise of a significant degree of judgement and may have a material impact on the amounts recognised in the statement of financial position.
How the matter was addressed in the audit	Our audit procedures included an evaluation of the discount rate applied by management to certain property leases with an aggregate liability on transition of £2.5 million, and the resulting impact on the right of use assets and lease liability. The remaining lease liabilities recognised are relatively short term, with expiry dates within 24 months and, therefore, movements in the IBR would not give rise to a risk of material misstatement. Our work included: • consulting our auditor's expert who considered a benchmark incremental borrowing rate for a sample of property leases, both short and longer term. They obtained independent external data to support a reference rate and credit spread for each lease tested, and considered whether any asset specific adjustment was required; • discussing the findings of our auditor's expert with management, who subsequently revised the rate used in their calculations; and • reviewing the related disclosure in note 1.25.
Key observations	Based on the audit work performed, we are satisfied that the incremental borrowing rates used are reasonable.

Impairment of intangible assets

Key audit matter description	As set out in note 14, the Group has intangible assets at 31 December 2019 of £21.1 million, including goodwill of £2.9 million. The group has two cash generating units ("CGUs"); Connect and Manage. The goodwill all relates to the Connect CGU. As a result of the impairment review for the Connect CGU, management recognised an impairment charge of £3.0 million. This was due to recent and continuing under-performance of the CGU. Additionally, they identified that the losses recorded in the Manage CGU were an indicator of potential impairment. Therefore, an impairment review was also undertaken for this CGU. The Group's assessment of impairment in accordance with IAS 36 Impairment of Assets is a judgemental process which requires estimating future cash flows based on management's view of future business prospects. The degree of subjectivity and the size of the impairment provision meant that this was a significant area of audit focus.
How the matter was addressed in the audit	Our work included: • critically challenging the key underlying assumptions (revenue, profit margins and discount rate) used in the forecasts that form the basis of the Group's impairment reviews. This included consulting our internal valuations experts on the discount rates used, and benchmarking growth rates to information produced by independent industry research and data organisations; • assessing the accuracy of past forecasts; this included comparing actual trading performance in 2019 to the forecast made in 2018 for that year and understanding the reasons for any significant variances; • reviewing the performance of each CGU for the 2020 year to date results against forecasts; • performing additional sensitivities, to assess the robustness of the model; • discussing our findings with management, as a result of which an adjustment was made to the discount rate and the growth rates in one of the CGUs;

	• performing a model integrity check, including reviewing the model for mathematical and clerical accuracy; and • reviewing the disclosures in the financial statements, including the disclosure of the events and circumstances that led to the recognition of the impairment charge and sensitivities.
Key observations	Based on the audit procedures performed, we are satisfied that management has made reasonable assumptions in their consideration of the impairment charge and the valuation of intangible assets at the year end.

Impairment of intercompany receivables	
Key audit matter description	As disclosed in note 16 the parent company has group receivables (before impairment) of £68.0 million at 31 December 2019. Under IFRS 9 - Financial Instruments, management must calculate an expected credit loss provision in respect of this balance. There is significant measurement uncertainty involved in assessing the probabilities to be assigned to the possible outcomes in this calculation. For this reason the valuation of group receivables was significant to our audit of the parent company financial statements. Management assessed the required level of provision under IFRS 9 - Financial Instruments as £49.0m.
How the matter was addressed in the audit	We obtained management's calculation of the expected credit loss ("ECL") and the underlying calculations prepared to support the carrying value of the balances and performed work as follows: • assessed the reasonableness of the scenarios considered by management and the probabilities assigned to each; • considered the appropriateness of the financial outcome for each scenario; • recalculated the computation of the ECL; • considered the impact of the calculations on the prior period impairment charge; • discussed our findings with management, following which an adjustment was made to the current and prior period's impairment provisions; and • reviewed the disclosures of the prior period adjustment arising from the revision of the ECL.
Key observations	As a result of our work we concurred with management's revised calculated ECL. We also considered the disclosure of the prior period adjustment to be appropriate.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	**Parent company**
Overall materiality	£367,000 (2018: £440,000).	£351,000 (2018: £418,000)
Basis for determining overall materiality	1.3% of revenue	3.3% of net assets. The percentage applied to the benchmark has been restricted for the purpose of calculating an appropriate component materiality.
Rationale for benchmark applied	Revenue is considered the most appropriate measure used to assess the performance of the group.	Net assets are considered to be the appropriate measure as the company's activity is to hold investments in group companies.
Performance materiality	£275,000 (2018: £308,000)	£263,000 (2018: £292,000)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality

Reporting of misstatements to the Audit Committee	Misstatements in excess of £18,300 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £17,500 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group consists of the parent company, two trading companies; IDE Group Manage Limited and IDE Group Connect Limited; and 13 other dormant or non trading entities. The parent company and the two trading companies are based in the UK.

The coverage achieved by our audit procedures was:

	Number of components	Revenue	Net assets	Loss before tax
Full scope audit	3	100.0%	99.9%	99.2%
Analytical procedures at group level	13	-	0.1%	0.8%
Total	**16**	**100.0%**	**100.0%**	**100.0%**

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 26, 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: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

RSM UK Audit LLP

GEOFF WIGHTWICK (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Portland
25 High Street
Crawley
West Sussex
RH10 1BG

Date: 13 July 2020

Consolidated Income Statement
for the year ended 31 December 2019

	Note	**Year ended 31 December 2019 £000**	Year ended 31 December 2018 £000
Continuing operations			
Revenue	4	**28,161**	41,137
Cost of sales	5	**(21,742)**	(34,521)
Gross profit		**6,419**	6,616
Administrative expenses excluding impairment	3 & 5	**(12,450)**	(18,522)
Impairment loss on trade receivables	5	**(30)**	(725)
Impairment charge on goodwill and intangibles	14	**(3,000)**	(17,528)
Total administrative expenses		**(15,480)**	(36,775)
Adjusted EBITDA*		**1,143**	(3,886)
Exceptional items	7	**(588)**	(2,368)
Depreciation	13	**(3,241)**	(2,848)
Amortisation	14	**(3,289)**	(3,290)
Impairment charge on goodwill and intangibles	14	**(3,000)**	(17,528)
Loss on disposal of fixed assets		**-**	(441)
Charges for share-based payments	28	**(86)**	202
Operating loss		**(9,061)**	(30,159)
Finance costs	9	**(1,827)**	(389)
Loss on ordinary activities before taxation		**(10,888)**	(30,548)
Income tax	11	**2,411**	1,089
Loss for the year from continuing operations		**(8,477)**	(29,459)
Discontinued operations			
Loss after tax for the year from discontinued operations	8	**(179)**	(3,165)
Loss for the year attributable to owners of the parent company		**(8,656)**	(32,624)
From continuing operations			
Basic and diluted loss per share	12	**(2.12)p**	(11.97)p
From discontinued operations			
Basic and diluted loss per share	12	**(0.04)p**	(1.29)p
Total basic and diluted loss per share	12	**(2.16)p**	(13.29)p

* 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

The notes on pages 40 to 77 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2019

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Loss for the year attributable to the owners of the parent company	**(8,656)**	(32,624)
Items that are or may be reclassified subsequently to the income statement		
Foreign exchange translation differences	**-**	(23)
Total other comprehensive (loss)/ income	**-**	(23)
Total comprehensive loss for the year attributable to the owners of the parent company	**(8,656)**	(32,647)

The notes on pages 40 to 77 are an integral part of these financial statements.

Statements of Financial Position

As at 31 December 2019

	Note	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company (Restated) 2018 £000
Non-current assets					
Property, plant and equipment	13	**9,706**	9,836	-	-
Intangible assets	14	**21,106**	27,395	-	-
Investments	15	-	-	**7,877**	7,877
Deferred tax asset	11	**1,821**	-	-	-
Trade and other receivables	16	-	-	**18,940**	26,782
		32,633	37,231	**26,817**	34,659
Current assets					
Trade and other receivables	16	**7,621**	8,893	**29**	46
Cash and cash equivalents	17	**679**	-	**103**	5,488
		8,300	8,893	**132**	5,534
Total assets		**40,933**	46,124	**26,949**	40,193
Current liabilities					
Trade and other payables	18	**7,562**	7,670	**2,075**	1,651
Contract liabilities	19	**1,926**	2,962	-	-
Borrowings	22	**1,766**	7,800	-	4,681
Provisions	21	**192**	1,514	**50**	50
		11,446	19,946	**2,125**	6,382
Non-current liabilities					
Contract liabilities	19	**6**	13	-	-
Borrowings	22	**14,333**	494	**12,474**	-
Convertible loan notes	23	**1,803**	1,654	**1,803**	1,654
Provisions	21	**230**	1,705	-	-
Deferred tax liabilities	11	**3,272**	3,899	-	-
		19,644	7,765	**14,277**	1,654
Total liabilities		**31,090**	27,711	**16,402**	8,036
Net assets		**9,843**	18,413	**10,547**	32,157
Equity attributable to equity holders of the parent					
Share capital	27	**10,020**	10,020	**10,020**	10,020
Share premium		**35,439**	35,439	**35,439**	35,439
Equity reserve		**967**	967	**967**	967
Retained earnings		**(36,433)**	(27,863)	**(35,879)**	(14,269)
Foreign currency translation reserve		**(150)**	(150)	-	-
Total equity		**9,843**	18,413	**10,547**	32,157

The notes on pages 40 to 77 are an integral part of these financial statements. The Company made a loss of £21.7 million in the year ended 31 December 2019 (2018 Restated: £6.3 million). These financial statements were approved by the Board of Directors on 13 July 2020 and were signed on its behalf by:

Ian Smith
Executive Director

Company registered number: SC368538

Statements of Changes in Equity

for the year ended 31 December 2019

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 2018	**5,018**	**35,439**	**-**	**4,963**	**(127)**	**45,293**
Loss for the financial year	-	-	-	(32,624)	-	(32,624)
Other comprehensive income/(expense)						
Movement in foreign currency translation	-	-	-	-	(23)	(23)
Total comprehensive income/(expense)	-	-	-	(32,624)	(23)	(32,647)
Transactions with owners recorded directly in equity:						
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**
Loss for the financial year and total comprehensive expense	-	-		(8,656)	-	(8,656)
Transactions with owners recorded directly in equity:						
Share based payments	-	-	-	86	-	86
Balance at 31 December 2019	**10,020**	**35,439**	**967**	**(36,433)**	**(150)**	**9,843**

Statements of Changes in Equity *(continued)*
***for the year ended 31 December 2019** (continued)*

Company	Note	Share Capital (a)	Share Premium (b)	Equity reserve (c)	Retained Earnings (d) (restated)	Total equity (restated)
		£000	£000	£000	£000	£000
Balance at 1 January 2018		5,018	35,439	-	16,541	56,998
Transition to IFRS 9 on I January 2018 (Restated)	2	-	-	-	(24,312)	(24,312)
Total comprehensive loss for the year						
Loss for the year (restated)	2	-	-	-	(6,296)	(6,296)
Transactions with owners recorded directly in equity:						
Share issues		5,002	-	-	-	5,002
Share based payments		-	-	-	(202)	(202)
Convertible loan notes		-	-	967	-	967
Balance at 31 December 2018 (Restated)		**10,020**	**35,439**	**967**	**(14,269)**	**32,157**
Total comprehensive loss for the year						
Loss for the year		-	-	-	(21,696)	(21,696)
Transactions with owners recorded directly in equity:						
Share based payments			-	-	86	86
Balance at 31 December 2019		**10,020**	**35,439**	**967**	**(35,879)**	**10,547**

(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 2019

Group

	Note	2019 £000	Restated 2018 £000
Cash flows from operating activities			
Loss before tax for the year:			
Continuing operations		**(10,888)**	(30,548)
Discontinued operations		**(216)**	(3,292)
Total loss before tax		**(11,104)**	(33,840)
Adjustments for:			
Depreciation	13	**3,241**	3,033
Amortisation	14	**3,289**	3,549
Impairment charge		**3,000**	21,505
Net finance expenses	9	**1,827**	390
Share based payments	28	**86**	(202)
Loss on disposal of fixed assets		**-**	425
Loss/(profit) on disposal of subsidiary		**-**	(680)
		339	(5,820)
Decrease in trade and other receivables		**1,271**	6,284
Decrease in inventory		**-**	366
Decrease in trade and other payables and contract liabilities		**(1,355)**	(11,320)
(Decrease)/increase in provisions		**(208)**	1,485
Net cash generated from/(used in) operating activities		**47**	(9,005)
Cash flows from investing activities			
Proceeds from sale of subsidiary and PACT business, net of overdraft repaid		**-**	3,611
Acquisition of property, plant and equipment	13	**(177)**	(272)
Realisation/ (acquisition) of non-current financial assets		**-**	89
Proceeds from sale of fixed assets		**-**	23
Net cash (used in)/generated from investing activities		**(177)**	3,451
Cash flows from financing activities			
Interest paid		**(451)**	(320)
Share issue, net of expenses		**-**	3,752
New loans and borrowings, net of expenses		**11,520**	3,800
Repayment of loans and borrowings		**(4,750)**	(2,750)
Repayment of lease liabilities		**(2,605)**	(335)
Net cash generated from financing activities		**3,714**	4,147
Net increase/(decrease) in cash and cash equivalents		**3,584**	(1,407)
Cash and cash equivalents at 1 January		**(2,905)**	(1,498)
Cash and cash equivalents at 31 December		**679**	(2,905)
Cash and cash equivalents comprise			
Cash at bank	17	**679**	-
Overdrafts		**-**	(2,905)
		679	(2,905)

Statements of Cash Flows *(continued)*
for the year ended 31 December 2019

Restatement of 2018 Group cash flow statement:
The comparative figures for the Group cash flow statement have been restated to start from the Group's loss before tax and show discontinued activities separately, with the corresponding removal of the tax charge of £1,216k from adjustments in arriving at cash from operating activities, as follows:

	2018 £000
Cash flows from operating activities as originally stated	(32,624)
Add tax	(1,216)
Total loss before tax	(33,840)

Statements of Cash Flows *(continued)*
for the year ended 31 December 2019

Company

	Note	2019 £000	(Restated) 2018 £000
Cash flows from operating activities			
Loss for the year		**(21,696)**	(6,296)
Adjustments for:			
Net financial expenses		**1,418**	278
Impairment of intercompany loans		**19,408**	5,245
Share based payments		**86**	(202)
Other		**-**	28
		(784)	(947)
(Increase)/decrease in trade and other receivables		**(17)**	1,351
Increase/(decrease) in trade and other payables		**424**	(808)
Decrease in provisions	*21*	**-**	(202)
Net cash from operating activities		**(377)**	(606)
Cash flows from investing activities			
Amounts (advanced to)/repaid by subsidiaries		**(11,734)**	1,123
Net cash generated from investing activities		**(11,734)**	1,123
Cash flows from financing activities			
Interest paid		**(44)**	(209)
Share issue, net of expenses		**-**	3,752
New loans and borrowings, net of expenses	22	**11,520**	3,800
Repayment of loans and borrowings	22	**(4,750)**	(2,750)
Net cash generated from financing activities		**6,726**	4,593
Net decrease in cash and cash equivalents		**(5,385)**	5,110
Cash and cash equivalents at 1 January		**5,488**	378
Cash and cash equivalents at 31 December	*17*	**103**	5,488

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 Group following the adoption of IFRS 16. Further detail of the implementation of this new standard can be found in note 1.25.

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 1.26 in the accounting policies.

Going concern

The Directors have taken advantage of the Government's Job Retention Scheme to furlough some staff members during the COVID-19 lockdown period, as well as senior staff taking a short-term 20% salary reduction, and also deferment of PAYE and VAT liabilities. There has been increased demand for lifecycle services which necessitated an increase in shifts and production, and this has offset minor reductions in user support desk activities.

The Directors have prepared detailed cash flow projections; these projections, considering reasonably possible changes in trading performance and the timing of key strategic events, including COVID-19, show the Group expects to operate within the level and conditions of available funding. The directors note, however, that although the cash flow projections show that the group expects to have sufficient cash resources throughout the forecast period, the levels of cash fluctuate and at times in the forecast period are relatively low. The continuing Covid-19 pandemic creates added uncertainties for the Group. Any reasonably possible deviation from the forecast cash inflows could result in the Group requiring additional funding.

The directors have discussed the future cashflows with two of the Group's major shareholders who are represented on the Board and, furthermore, note the continued support of these shareholders, as demonstrated by the refinancing during the year. In reaching their conclusion on the going concern assumption, the directors note and rely on the letter of support provided by MXC Capital Limited, in which they undertake to continue to provide such financial support needed for continued operations for a period not less than one year from the date of approval of these financial statements. The directors having made the necessary inquiries, have satisfied themselves of MXC Capital's ability to provide such finance if necessary. After making enquiries and having regard to the FRC's Guidance to Companies on COVID-19 issued in March 2020, 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.In the year ended 31 December 2019, 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 to certain of the Company's shareholders. Further detail can be found in note 22.

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.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

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 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.

1.3 Investments

Investments in subsidiaries are held at cost less accumulated impairment losses. A formal assessment of the recoverability of the investment values is undertaken on an annual basis by the Directors. Where indicators of impairment identified, fixed asset investments are impaired accordingly.

1.4 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.

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.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

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.

1.5 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.

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	3 - 5 years
• Network infrastructure	3 - 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.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.6 Impairment of assets *(continued)*

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, other than goodwill, that were impaired in previous periods are reviewed annually to assess whether the impairment is still relevant.

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

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

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

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.

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.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.9 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event where 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. 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.

1.10 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.

1.11 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.

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

1.12 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.

1.13 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

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.14 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.

1.15 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.

1.16 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.

1.17 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.

1.18 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.

1.19 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 Valued Added Tax, returns, rebates and discounts and after the elimination of 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.

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. A contract liability is recognised when billing occurs ahead of revenue recognition. A contract asset is recognised when the revenue recognition criteria were met but in accordance with the underlying contract, the sales invoice has not been issued yet.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.19 Revenue *(continued)*

Project revenue

These project services include mainly installation and consultancy services. 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.

1.20 Exceptional items

It is the policy of the Group to identify certain costs, which are material either because of their size or nature, separately on the face of the Income Statement in order that the underlying profitability of the business can be clearly understood. These costs are identified as Exceptional costs, and comprise;

a) Professional fees incurred in sourcing and completing acquisitions and disposals including legal expenses
b) Professional fees incurred in restructuring and refinancing acquisitions
c) Integration costs which are incurred by the Group when integrating one trading business into another, including rebranding of acquired businesses
d) Redundancy costs, including employment related costs of staff made redundant up to the date of their leaving as a consequence of integration
e) Property costs such as lease termination penalties and vacant property provisions and third-party advisor fees

1.21 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.

1.22 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.

1.23 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 two operating segments: IDE Group Manage and IDE Group Connect. IDE Group Manage consists of IT Managed services and IDE Group Connect consists of connectivity, cloud and colocation services. The Board assess the performance of the operating segments based on profitability and EBITDA. An analysis of revenue and gross profit of both segments is 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.

1.24 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.

1.25 Application of new IFRSs and interpretations

International Financial Reporting Standard (IFRS) 16 "Leases"

The Group implemented IFRS 16 Leases as of 1 January 2019, adopting the modified retrospective approach. The new standard 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

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies *(continued)*

1.25 Application of new IFRSs and interpretations (continued)

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 Group. The operating lease charges previously reflected within administrative expenses have been eliminated and instead depreciation and finance charges have been recognised in respect of the lease assets and liabilities.

International Financial Reporting Standard (IFRS) 16 "Leases"*(continued)*

The effect of IFRS 16 for the current reporting period, based on the operating leases in place and qualifying for recognition under IFRS 16 has resulted in the recognition of additional lease assets within property, plant and equipment at 31 December 2019 of £5.5 million and additional lease liabilities of £5.5 million in total for the Group. Additional lease liabilities include £2.6m in respect of contracts which were determined to be onerous in prior periods. The related right of use assets were recognised at £2.6m and the onerous leases provision brought forward was transferred to the right of use asset impairment provision The depreciation charge against the right of use asset in 2019 has been calculated to be £0.7 million, with an interest charge of £0.3 million, which compares to the previous IAS 17 treatment which would have been an operating lease charge within operating expenses of £0.9 million, resulting in an increase in Adjusted EBITDA reported in 2019 of £0.9 million compared to the IAS 17 treatment.

The weighted average incremental borrowing rate applied to lease liabilities recognised by the group at 1 January 2019 is 7.97%.

When adopting IFRS 16 from 1 January 2019, the consolidated entity has applied the following practical expedients:

- applying a single discount rate to the portfolio of leases with reasonably similar characteristics;
- excluding any initial direct costs from the measurement of right-of-use assets; and
- using hindsight in determining the lease term when the contract contains options to extend or terminate the lease.
- The right-of-use-assets have not been assessed for impairment at 1 January 2019 but have been reduced by the amount of any onerous lease provisions at that date.

Impact of adoption

IFRS 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated.

Differences between the operating lease commitments disclosed at 31 December 2018 under IAS 17 discounted at the incremental borrowing rate at 1 January 2019 and lease liabilities recognised at 1 January 2019 are explained below:

	1 January 2019
	£000
Operating lease commitments as at 1 January 2019 (IAS 17)	**2,476**
Adjustment to opening lease commitments in respect of lease extension	**1,345**
Operating lease commitments discount based on the weighted average incremental borrowing rate of 7.97% (IFRS 16)	**(887)**
Onerous contract provision for network infrastructure and properties now recognised as lease liabilities at 1 January 2019	**2,590**
Right of use assets recognised on transition to IFRS 16 on 1 January 2019	**5,524**
Lease liabilities - current (IFRS 16)	**2,924**
Lease liabilities - non-current (IFRS 16)	**2,600**
	5,524

There was no impact on retained earnings on transition.

The Company has no leases.

Notes to the Consolidated Financial Statements *(continued)*

1.26 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 impairment of goodwill and intangibles - the Group tests 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.

Estimation of incremental borrowing rate - Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the Group estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

Estimation of provisions - 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 20 to the financial statements.

Estimation of probability of loss on recoverability of intercompany loans - Where full recoverability of an intercompany loan is not certain, an estimate is determined as to the probability of recoverability. This considers the probability of default, loss arising under any default, and the exposure upon any default (the outstanding balances).

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 1.20 above and are appropriately clarified.

Recoverability of deferred tax asset – the Directors have exercised judgement on the recoverability of tax losses attributable to future trading profits generated by the Group, and in doing so this has given rise to a deferred tax asset details of which are shown in note 10 to the financial statements.

Notes to the Consolidated Financial Statements *(continued)*

2 Restatement of Company results for the year ended 31 December 2018

Correction of error in assessing expected credit losses

Following the introduction of IFRS 9 with effect from 1 January 2018, the company was required to assess the expected credit losses on intercompany receivables. Management has discovered an error in the application of the standard in the year ended 31 December 2018 which resulted in an overstatement of the impairment provision made at 31 December 2018, and an understatement of the impairment provision in the opening position at 1 January 2018.

The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

Balance sheet:	31 December 2018 as originally stated £'000	2018 (increase)/ decrease £'000	Transition to IFRS 9 increase/(decrease) £'000	31 December 2018 (restated) £'000
Amounts due from subsidiary undertakings	56,338	-	-	56,338
Provision against amounts due from subsidiary undertakings	(56,338)	2,470	24,312	(29,556)
Total amounts due from subsidiary undertakings	-	2,470	24,312	26,782
Net assets	5,375	2,470	24,312	32,157
Retained earnings	(41,051)	51,094	(24,312)	(14,269)
Total equity	5,375	51,094	(24,312)	32,157
Loss for the year	(57,390)	51,094	-	(6,296)

Changes to cash flow statement:

	31 December 2018 as originally stated £'000	(Increase)/decrease £000	31 December 2018 (restated) £'000
Loss for year	(57,390)	51,094	(6,296)
Adjustment for impairment of intercompany loans	-	5,245	5,245
Decrease/(increase) in trade and other receivables	58,811	(57,460)	1,351
Amounts (advanced to)/repaid by subsidiaries	-	1,123	1,123

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.

Notes to the Consolidated Financial Statements *(continued)*

3 Segment reporting *(continued)*

During the year, the CODM reviewed the operating segments of the Group in response to the sale of 365 ITMS Limited, the PACT business and the client novation exercise carried out in late 2018 to streamline the activities of the subsidiaries. In response to these changes it was deemed more appropriate to report upon the subsidiaries as operating segments and as such the 2018 comparative reporting has been restated to reflect this change below.

The following table presents revenue and gross profit in respect of the Group's continuing operating segments for the year ended 31 December 2019.

Year ended 31 December 2019	IDE Group Manage £000	IDE Group Connect £000	Central & inter-segment £000	Total Continuing Operations £000	Discontinued Operations £000	Total £000
Revenue from contracts with customers	14,660	14,603	(1,102)	28,161	(216)	27,945
Cost of Sales	(10,128)	(12,716)	1,102	(21,742)	-	(21,742)
Gross profit	4,532	1,887	-	6,419	(216)	6,203
Administrative expenses	(7,069)	(4,525)	(886)	(12,480)	-	(12,480)
Impairment charge	-	(3,000)	-	(3,000)	-	(3,000)
Operating profit/(loss)	(2,537)	(5,638)	(886)	(9,061)	(216)	(9,277)
Analysed as:						
Adjusted EBITDA	1,113	748	(719)	1,142	(216)	926
Exceptional costs	(355)	(152)	(81)	(588)	-	(588)
Depreciation	(1,469)	(1,772)	-	(3,241)	-	(3,241)
Amortisation of intangible assets	(1,826)	(1,463)	-	(3,289)	-	(3,289)
Impairment charge	-	(3,000)	-	(3,000)	-	(3,000)
(Loss)/profit on disposal of fixed assets	-	-	-	-	-	-
Share based payments	-	-	(86)	(86)	-	(86)
Net financial costs	(369)	(38)	(1,420)	(1,827)	-	(1,827)
Profit/(loss) before taxation	(2,906)	(5,676)	(2,306)	(10,888)	(216)	(11,104)
Tax on profit/(loss) on ordinary activities	1,130	277	1,004	2,411	37	2,448
Profit/(loss) for the year after taxation	(1,776)	(5,399)	(1,302)	(8,477)	(179)	(8,656)

Notes to the Consolidated Financial Statements *(continued)*

3 Segment reporting *(continued)*

Year ended 31 December 2018	IDE Group Manage £000	IDE Group Connect £000	Central and inter-segment £000	Total Continuing Operations £000	Discontinued Operations £000	Total £000
Revenue from contracts with customers	27,212	14,581	(656)	41,137	10,428	51,565
Cost of Sales	(21,369)	(13,808)	656	(34,521)	(7,822)	(42,343)
Gross profit	5,843	773	-	6,616	2,606	9,222
Administrative expenses	(15,453)	(3,327)	(467)	(19,247)	(2,600)	(21,847)
Impairment charge	(10,609)	(6,919)		(17,528)	(3,977)	(21,505)
Operating profit/(loss)	(20,219)	(9,473)	(467)	(30,159)	(3,971)	(34,130)
Analysed as:						
Adjusted EBITDA	(3,144)	(443)	(299)	(3,886)	582	(3,304)
Exceptional costs	(1,889)	(109)	(370)	(2,368)	(148)	(2,516)
Depreciation	(2,024)	(824)	-	(2,848)	(185)	(3,033)
Amortisation of intangible assets	(2,519)	(771)	-	(3,290)	(259)	(3,549)
Impairment charge	(10,609)	(6,919)	-	(17,528)	(3,977)	(21,505)
(Loss)/profit on disposal of fixed assets	(440)	(1)	-	(441)	16	(425)
Share based payments	-	-	202	202	-	202
Profit on disposal of subsidiary	-	-	-	-	680	680
Net financial costs	(108)	(1)	(280)	(389)	(1)	(390)
Profit/(loss) before taxation	(20,327)	(9,474)	(747)	(30,548)	(3,292)	(33,840)
Tax on profit/(loss) on ordinary activities	272	124	693	1,089	127	1,216
Profit/(loss) for the year after taxation	(20,055)	(9,350)	(54)	(29,459)	(3,165)	(32,624)

IFRS 16 was adopted using the modified retrospective approach. As such, the comparatives have not been restated and therefore are not directly comparable.

The Group had one customer who accounted for 27% of revenue from continuing operations during the year (2018: 36.8%). This revenue is attributed fully to the IDE Group Manage segment.

4 Revenue

	2019 £000	2018 £000
Revenue from contracts with customers		
Sale of goods	**925**	1,244
Rendering of services	**27,236**	39,893
Total	**28,161**	41,137

Notes to the Consolidated Financial Statements *(continued)*

4 Revenue *(continued)*

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

Year ended 31 December 2019	Managed Services £000	Cloud Hosting £000	Networks £000	Projects £000	**Total £000**
Geographical regions					
United Kingdom	10,998	7,222	4,709	3,968	**26,897**
Europe	162	421	358	43	**984**
Rest of world	-	104	176	-	**280**
Total	11,160	7,747	5,243	4,011	**28,161**
Timing of revenue recognition					
Goods transferred at a point in time	925	-	-	-	**925**
Services transferred over time	10,235	7,747	5,243	4,011	**27,236**
Total	11,160	7,747	5,243	4,011	**28,161**

Year ended 31 December 2018	Managed Services £000	Cloud Hosting £000	Networks £000	Projects £000	**Total £000**
Geographical regions					
United Kingdom	16,352	9,485	6,637	6,951	**39,425**
Europe	149	440	539	71	**1,199**
Rest of world	-	322	190	1	**513**
Total	16,501	10,247	7,366	7,023	**41,137**
Timing of revenue recognition					
Goods transferred at a point in time	1,146	49	49	-	**1,244**
Services transferred over time	15,355	10,198	7,317	7,023	**39,893**
Total	16,501	10,247	7,366	7,023	**41,137**

Notes to the Consolidated Financial Statements *(continued)*

4 Revenue *(continued)*

Contract balances

	2019 £000	2018 £000
Receivables included within trade and other receivables	**6,006**	7,108
Contract assets	**590**	662
Contract liabilities	**(1,932)**	(2,975)
Total	**6,596**	7,770

Contract assets predominantly relate to fulfilled obligations in respect of projects and managed services which are billed monthly and in arrears. At the point where completed work is invoiced, the contract asset is derecognised and a corresponding receivable recognised.

Contract liabilities relate to consideration received from customers in advance of work being completed.

The Group's standard payment terms are 30 days from the date of invoice. Refunds are only due in the exceptional circumstances where the Group does not meet the performance obligations set out in a contract. The majority of revenue for services is invoiced monthly, sometimes quarterly, in advance, and goods are invoiced on delivery.

Unsatisfied performance obligations

All contracts for the provision of services are for periods of one year or less or are billed based on resources utilised. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5 Expenses by nature

	2019 £000	2018 £000
Continuing operations		
Direct staff costs	**7,125**	8,858
Third party cost of sales	**14,617**	25,663
Employee costs within administrative expenses	**2,608**	5,737
Amortisation of intangible assets	**3,289**	3,290
Depreciation	**3,241**	2,848
Impairment charge	**3,000**	17,528
Impairment (gain)/loss on trade receivables	**30**	725
Loss on disposal of fixed assets	**-**	441
Share-based payments	**86**	(202)
Exceptional costs	**588**	2,368
Amounts payable under operating leases	**-**	1,463
Other administrative costs	**2,638**	2,577
Total cost of sales and administrative expenses	**37,222**	71,296

6 Auditor's remuneration

	2019 £000	2018 £000
Audit of these financial statements	**24**	25
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**78**	72
Additional fees charged in respect of prior year's audit	**31**	60
Total	**133**	157

Notes to the Consolidated Financial Statements *(continued)*

7 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:

	2019	2018
	£000	£000
Restructuring and reorganisation costs	**466**	2,105
Trademark dispute	**-**	263
Other exceptional costs	**122**	-
	588	2,368

Restructuring and reorganisation costs in the year ended 31 December 2019 and the year ended 31 December 2018 relate to costs incurred on the restructure of the Group, predominantly redundancy costs. Trademark dispute costs in the year ended 31 December 2018 relate to the settlement and associated legal costs in relation to the trademark dispute with Coreix Limited.

Other exceptional costs in the year ended 31 December 2019 relate mainly to costs associated with a break in at the Dartford facility.

8 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 showed a loss on discontinued operations of £3.2m and a profit on disposal of subsidiary of £0.7m. Further losses of £0.2m were identified in the current year on contracts novated as part of the disposal.

9 Finance costs

Continuing Operations	**2019**	2018
	£000	£000
Interest payable on bank loans and overdrafts	**29**	232
Interest expense on lease liabilities	**422**	55
Amortisation of loan arrangement fees	**138**	32
Interest expense in respect of convertible loan notes	**149**	70
Interest expense in respect of loan notes	**1,089**	-
	1,827	389

The Group had no finance income in 2019 or 2018.

Notes to the Consolidated Financial Statements *(continued)*

10 Employee benefits expense

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

	2019	2018
	£000	£000
Wages and salaries	**8,293**	12,667
Social security costs	**841**	1,325
Other pension costs	**599**	603
Share-based payments	**86**	(202)
	9,819	14,393

At 31 December 2019, the Group employed 262 staff, including Directors (2018: 303).

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	
	2019	2018
Operations	**200**	309
Sales and Marketing	**17**	22
Administration	**48**	54
Directors	**3**	4
Total average monthly headcount	**268**	389

The Company employed an average of 3 employees during 2019 (2018: 4), being the three directors of the Company, whose remuneration is shown below.

For Directors who held office during the year, emoluments for the year ended 31 December 2019 were as follows:

	Salary/fees 2019 total	Salary/fees 2018 total
	£	£
Executive		
Andy Ross	-	141,144
Julian Phipps	-	92,870
Ian Smith[1]	**50,000**	29,167
Andy Parker	**150,000**	38,469
Non-Executive		
Jonathan Watts	-	16,668
Bill Dobbie	-	20,000
Katherine Ward	-	23,334
Max Royde[2]	**26,048**	7,177
Sebastian White[2]	**3,952**	-
Total	**230,000**	368,829

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

Notes to the Consolidated Financial Statements *(continued)*

10 Employee benefits expense *(continued)*

Social security costs in respect of Directors' emoluments were £19.5k (2018: £44k). 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 2019 or 2018.

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

Following the lapse of options in 2018, there were no equity share based payments in respect of Directors during the year (credit of £104k in the year to 31 December 2018), there were also no equity share based payments in respect of other employees during the year (credit of £102k in the year to 31 December 2018)

11 Taxation

(a) Tax on loss on ordinary activities

	2019	2018
	£000	£000
Current tax credit		
Current year	**-**	-
Adjustments for prior years	**-**	-
Current tax credit	**-**	-
Deferred tax credit	**(2,448)**	(1,216)
Total tax credit	**(2,448)**	(1,216)
Relating to:		
Continuing operations	**(2,411)**	(1,089)
Discontinued operations	**(37)**	(127)
	(2,448)	(1,216)

Following the year end, in the Budget of 11 March 2020, the Chancellor announced the reversal of the previously enacted reduction in the rate of corporation tax. This reversal was subsequently confirmed by a resolution under the Provisional Collection of Taxes Act 1968, which set the rate at 19%. The impact of this reversal is a net increase in the tax charge, which will be recognised in 2020, of less than £0.4million.

Reconciliation of the total income tax credit:

	2019	2018
	£000	£000
Loss before taxation on continuing operations	**(10,888)**	(30,548)
Tax using the United Kingdom corporation tax rate of 19% (2018: 19%)	**(2,069)**	(5,804)
Non-deductible expenses	**165**	747
Depreciation on non-qualifying assets	**587**	3,332
Tax losses not recognised	**-**	986
Tax losses recognised in period	**(1,233)**	(431)
Adjustment for rate change	**139**	81
Discontinued operations	**(37)**	(127)
Total tax credit	**(2,448)**	(1,216)

Notes to the Consolidated Financial Statements *(continued)*

11 Taxation *(continued)*

(b) Deferred tax liability

	2019 £000	2018 £000
Net deferred tax liability:		
At 1 January	**3,899**	5,115
Credit to income statement	**(2,448)**	(1,216)
At 31 December	**1,451**	3,899

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:

	2019 £000	2018 £000
Fixed asset timing differences	**3,272**	3,917
Other temporary differences	**-**	(18)
At 31 December	**3,272**	3,899

Deferred tax assets arose in respect of trade losses, details as follows:

	2019 £000	2018 £000
Tax losses recognised	**1,806**	-
Other temporary differences	**15**	-
At 31 December	**1,821**	-

The Group had unrecognised trading losses carried forward at 31 December 2019 of £15.6 million (2018: £25.5 million).

Deferred tax assets are recognised for tax losses carried forward of £10.7 million to the extent that the realisation of the related tax benefit through future taxable profits is probable. The deferred tax credit to the income statement relates to the recognition of a previously unrecognised deferred tax asset for trading losses of £10.7 million at the reporting period end date. The recognition is restricted to the deferred tax liability arising in relation to timing differences on the acquired intangible assets. In assessing recoverability, management considers that the appropriate period over which profits can be assessed with a reasonable degree of certainty, and therefore used to offset the losses, is the period to 31 December 2028.

Notes to the Consolidated Financial Statements *(continued)*

12 Earnings per share

Basic earnings per share has been calculated using the loss after tax for the year for continuing operations of £8.5 million (2018: £29.5 million), a loss after tax for the year for discontinued operations of £0.2 million (2018: £3.2 million) and a weighted average number of ordinary shares of 400,802,032 (2018 246,067,004). 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 25, would have the effect of reducing the loss per ordinary share and therefore would be anti-dilutive under the terms of IAS 33.

Continuing operations

	2019	2018
Statutory basic and diluted loss per share (pence)	**(2.12)p**	(11.97)p
Discontinued operations		
Statutory basic and diluted loss per share (pence)	**(0.04)p**	(1.29)p
Total basic and diluted loss per share	**(2.16)p**	(13.26)p

Notes to the Consolidated Financial Statements *(continued)*

13 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 2018	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
Additions	10	22	35	110	177
Right of use assets recognised on transition to IFRS16	2,542	-	85	307	2,934
At 31 December 2019	**2,669**	**1,025**	**13,558**	**3, 701**	**20,953**
Accumulated depreciation					
At 1 January 2018	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
Charge for the year – continuing	521	238	1,833	649	3,241
At 31 December 2019	**617**	**927**	**6,369**	**3,334**	**11,247**
Net carrying amount					
31 December 2019	**2,052**	**98**	**7,189**	**367**	**9,706**
31 December 2018	21	314	8,902	599	9,836

Notes to the Consolidated Financial Statements *(continued)*

13 Property, plant and equipment *(continued)*

Right of use assets

The carrying amounts of property, plant and equipment include right of use assets as detailed below:

	2019 £000
Leasehold Property – right-of-use	2,542
Less: accumulated depreciation	(505)
	2,037
Equipment, fixtures and fittings – right-of-use	307
Less: Accumulated depreciation	(178)
	129
Network Infrastructure – right-of-use	85
Network infrastructure – right of use	2,589
Less: impairment provision	(2,589)
	85
Less: Accumulated depreciation	(73)
	12
	2,178

At 31 December 2018 included within network infrastructure are assets held under finance leases with a carrying value of £475k.

The depreciation charge for the year of £3.2 million (2018: £2.8 million) relates to continuing operations and has been charged to administrative expenses.

Company

The Company has no property, plant and equipment at 31 December 2019 and at 31 December 2018.

Notes to the Consolidated Financial Statements *(continued)*

14 Intangible assets

Group

	Goodwill £000	Trademarks £000	Customer contracts and related relationships £000	Technology development £000	Total £000
Cost:					
At 1 January 2018	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
Additions	-	-	-	-	-
At 31 December 2019	**32,256**	**1,707**	**29,076**	**935**	**63,974**
Impairment and amortisation:					
At 1 January 2018	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
Amortisation for the year – continuing operations	-	341	2,865	83	3,289
Impairment charge – continuing operations	3,000	-	-	-	3,000
At 31 December 2019	**29,325**	**1,322**	**11,312**	**909**	**42,868**
Net carrying amount:					
31 December 2019	**2,931**	**385**	**17,764**	**26**	**21,106**
31 December 2018	5,931	726	20,629	109	27,395

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.

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 and IDE Group Connect. The goodwill held is attributable to the IDE Group Connect CGU.

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

As a result of this review, there is an impairment charge of £3.0 million in the year (2018: £17.5 million).

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 for the year ending 31 December 2020 and extrapolated forecasts for a further four years by prudent growth rates applicable to the CGU, which are below bench-marked median revenue growth rates and EBITDA profitability levels for relevant sectors. The financial budgets were approved by the Board of Directors as part of our annual forecasting and budgeting process. A terminal value has been calculated based on a long-term growth rate of 2%.. The recoverable amount in relation to IDE Group Manage was calculated to be £19.7 million and the recoverable amount in relation to IDE Group Connect was calculated to be £10.7 million.

Notes to the Consolidated Financial Statements *(continued)*

14 Intangible assets *(continued)*

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 EBITDA. The pre-tax WACC has been estimated at 11% per annum (2018: 15%) for both CGUs with reference to comparable companies operating within the sector. Sensitivities have been run on cash flow forecasts for all CGUs. The Board is satisfied that the key assumptions, summarised below, of revenue, gross profit, and overhead growth rates are achievable.

	Manage	**Connect**
Carrying amount £000	12,007	13,781
Value in use £000	19,768	10,743
Key assumptions		
2020 forecast Revenue £000	16,694	14,054
2020 forecast Gross Profit £000	4,463	1,897
2020 forecast Overheads £000	3,842	1,091
Gross Profit growth rate 2021-2024	+10%	+5%
Overhead growth rate 2021-2024	+2%	+2%
Discount rate	11%	11%

The Board reviewed the Manage CGU for impairment in view of pre-tax losses incurred in the CGU, and based on the review do not consider there to be any impairment of the Manage CGU intangible assets. 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 and is therefore satisfied that there are no reasonably plausible scenarios which may result in an impairment of the Manage CGU's intangible assets. Accordingly, no sensitivity analysis is presented.

For the Connect CGU, the impairment review indicated a requirement for a further £3 million impairment against goodwill for the year (2018: £17.0 million) based on a shortfall of the estimated value in use compared to the carrying value CGU. The CGU's performance has improved compared to prior years, but the recovery has been slower than forecast.

The remaining unamortised life of the intangible assets at 31 December 2019 is as follows:

- IDE Group Connect Trademarks – 1 year, net carrying value £0.4 million
- IDE Group Connect Technology – 1 year, net carrying value £0.03 million
- IDE Group Connect novated customer contracts and related relationships- 5 years, net carrying value £6.8 million
- IDE Group Connect legacy customer contracts and related relationships- 1 year, net carrying value £0.4 million
- IDE Group Manage customer contracts and related relationships – 9 years, net carrying value £10.6 million

Company

The company had no intangible assets at 1 January 2018, 31 December 2018 or 31 December 2019.

Notes to the Consolidated Financial Statements *(continued)*

15 Investments

Company

	2019 £000	2018 £000
At 1 January 2018, 31 December 2018 and 31 December 2019	**7,877**	7,877

The Company has the following investments in subsidiaries:

	Country of Incorporation	Class of shares held	Ownership 2019	2018
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[1]	Ordinary	**100%**	100%
Castle Digital Services Inc.	USA[3]	Ordinary	**100%**	100%
Cupid.com Inc.	USA[3]	Ordinary	**100%**	100%
Assistance Genie Logiciel	France[4]	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[1]	Ordinary	**100%**	100%
Hooya Digital Limited	Cyprus[5]	Ordinary	**100%**	100%

1 Registered office is located at Interchange, 81-85 Station Road, Croydon, England, CR0 2RD
2 Registered office is located at 24 Dublin Street, Edinburgh EH1 3PP
3 Registered office is located at 2711 Centerville Road, Suite 400, New Castle, Wilmington, Delaware 19808, U.S.A.
4 Registered office is located at 39 Rue Royale, 92201 Saint-Cloud, France
5 Registered office is located at Faneromenis 115, Antouanettas Building, 6031 Larnaca, Cyprus

At 31 December 2019 and 2018, the trading subsidiaries of the Company were IDE Group Manage Limited and IDE Group Connect Limited.

IDE Group Manage activity consists of IT Managed services and IDE Group Connect consists of connectivity, cloud and colocation services

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 and the parent company has guaranteed all their liabilities at the reporting date.

Notes to the Consolidated Financial Statements *(continued)*

16 Trade and other receivables

	Group		Company	
Current	**2019**	2018	**2019**	2018
	£000	£000	**£000**	£000
Trade receivables	**6,006**	7,108	**-**	9
Less provision for impairment of trade receivables	**(597)**	(725)	**-**	-
Trade receivables – net	**5,409**	6,383	**-**	9
Contract assets	**590**	662	**-**	-
Prepayments and other receivables	**1,596**	1,848	**2**	37
Taxation and social security	**26**	-	**26**	-
	7,621	8,893	**28**	46

	Group		Company	
				(Restated)
Non-current	**2019**	2018	**2019**	2018
	£000	£000	**£000**	£000
Amounts due from subsidiary undertakings	**-**	-	**67,904**	56,338
Provision against amounts due from subsidiary undertakings	**-**	-	**(48,964)**	(29,556)
	-	-	**18,940**	26,782

In accordance with IFRS 9, the Group 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. The Group has applied the Simplified Approach applying a provision matrix based on categorisation of the customer based on total revenue received by the group per annum to measure lifetime expected credit losses and after taking into account customers with different credit risk profiles and current and forecast trading conditions. Credit risk is deemed lower on customers that contribute higher revenue due to an increased dependency on the group's services for business continuity.

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:

Category	Impairment Rate		Carrying amount		Credit loss allowance (net of VAT)	
	2019	2018	2019	2018	2019	2018
	%	%	£000	£000	£000	£000
Top 10	0	0	3,468	3,783	-	-
Top 50	2	2	751	1,670	13	28
Other	5	5	1,130	861	38	36
Specific	100	100	657	794	546	661
			6,006	7,108	597	725

Specific provisions are also made based on known issues or changes in the lifetime expected credit loss. As at 31 December 2019, trade receivables of £0.6 million (2018: £0.7 million) were impaired and fully provided, and were mainly over 120 days old. The majority of the impairment relates to specific customers, and the credit risk on other customers is considered very low.

Notes to the Consolidated Financial Statements *(continued)*

16 Trade and other receivables *(continued)*

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

	Group **2019** **£000**	2018 £000	Company **2019** **£000**	2018 £000
At 1 January	**725**	380	**-**	-
Increase in impairment provision	**30**	396	**-**	-
Disposal of discontinued operations	**-**	(33)		
Write offs	**(157)**	(18)	**-**	-
At 31 December	**598**	725	**-**	-

The creation and release of a provision for impaired receivables has been in the main included in "administrative expenses" in the Income Statement, with an amount being set against contract assets, £6k (2018: £11k).

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

Amounts due from subsidiary undertakings

The Company has funded the trading activities of its principal subsidiaries by way of inter-company loans. The amounts advanced do not have any specific terms relating to their repayment, are unsecured and are interest free. As all loans to subsidiaries are to be treated as due on demand, they fall within the scope of IFRS 9.

In accordance with IFRS 9, the Company is required to make an assessment of expected credit losses. Having considered the quantum and probability of credit losses expected to arise across a number of scenarios, a provision of £1.5 million for the expected credit loss was recognised in the reporting period in respect to trading subsidiaries, and a provision of £47.5 million for the expected credit loss was recognised at the reporting period end in respect to intermediary holding companies.

The calculation of the allowance for lifetime expected credit losses requires a significant degree of estimation and judgement, in particular in determining the probability weighted likely outcome for each scenario considered to determine the expected credit loss in each scenario. Should the assumptions in the business plan vary, this could have a significant impact on the carrying value of the intercompany loans in following periods.

The recoverability is sensitive to the probability of the achievement of future cash flows. Each change of 1% point in probability results in an increase/decrease of £190k.

A breakdown of the balances is set out in note 30.

17 Cash and cash equivalents

	Group **2019** **£000**	2018 £000	Company **2019** **£000**	2018 £000
Cash and cash equivalents	**679**	-	**103**	5,488

Bank overdrafts are detailed in note 22 borrowings.

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

Credit rating	Group **2019** **£000**	2018 £000	Company **2019** **£000**	2018 £000
A	**679**	-	**103**	5,488

18 Trade and other payables

	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Current				
Trade payables	**5,624**	4,883	**752**	156
Amounts due to subsidiary undertakings	**-**	-	**1,204**	1,204
Other payables	**408**	185	**42**	42
Taxation and social security	**225**	786	**-**	-
Accruals	**1,305**	1,816	**77**	249
	7,562	7,670	**2,075**	1,651

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

19 Contract liabilities

	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Contract liabilities recognisable within 12 months	**1,926**	2,962	**-**	-
Contract liabilities recognisable after 12 months	**6**	13	**-**	-
Total contract liabilities	**1,932**	2,975	**-**	-

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

20 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 2018 £000	Other 2018 £000
Not later than one year	854	278
After one year but not more than five years	1,197	147
	2,051	425

The Group's operating leases in the year ending 31 December 2018 relate to property, motor vehicles and office equipment and had remaining terms of between one and five years.

On 1 January 2019, the Group adopted the modified retrospective approach of IFRS16. All operating leases met the criteria for capitalisation and were reclassified as finance leases accordingly.

The Company had no leases.

b) Capital commitments

The Group had no contracted but not provided for capital commitments at 31 December 2019 (2018: £nil).

c) Contingent liabilities

The Group has no contingent liabilities.

Notes to the Consolidated Financial Statements (continued)

21 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, therefore there is an uncertainty in respect of the value, however it is not expected to exceed the provision and all amounts are expected to be settled in 2020.

Property provision

The Group currently has some vacant office space. This was previously treated as a provision for an onerous lease but has been transferred to right of use assets. The remaining balance in respect of property provision are dilapidation provisions. 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. This provision is expected to be settled in full at the expiry of the longest standing lease, currently expiring in 2027.

Other provisions

Other provisions in the prior year 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. The provisions relating to contracts qualifying as leases have been de-recognised on transition to IFRS 16 and dealt with in accordance. All remaining amounts are expected to be settled by 2022.

Group	**Tax planning provision £000**	**Property provision £000**	**Other provision £000**	**Total £000**
Balance at 1 January 2019	33	599	2,587	3,219
Increase in year	-	51	255	306
Utilised	-	(379)	(135)	(514)
Onerous leases de-recognised on transition to IFRS16		(162)	(2,427)	(2,589)
Balance at 31 December 2019	**33**	**109**	**280**	**422**

	2019	2018
Non-current	230	1,705
Current	192	1,514
	422	3,219

Company	**Other Provision £000**	**Total £000**
Balance at 1 January 2019	50	50
Utilised	-	-
Balance at 31 December 2019	**50**	**50**

	2019	2018
Non-current	-	-
Current	50	50
	50	**50**

Notes to the Consolidated Financial Statements *(continued)*

22 Borrowings

	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Non-current				
Lease liabilities	**1,859**	494	**-**	-
Loan Notes	**12,474**	-	**12,474**	-
	14,333	494	**12,474**	-

	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Current				
Bank loan	**-**	4,750	**-**	4,750
Unamortised loan arrangement fee	**-**	(69)	**-**	(69)
Bank overdraft	**-**	2,905	**-**	-
Lease liabilities	**1,766**	214	-	-
	1,766	7,800	-	4,681

The carrying value is not materially different to the fair value of these liabilities.

Bank facilities

During the year ended 31 December 2018 the Group's borrowings were with National Westminster Bank plc ("Natwest") and comprised a five-year, fully drawn £4.75 million Revolving Credit Facility ("RCF") and a £3.5 million overdraft facility (the "Facilities"). Interest was payable on the utilised RCF at 2% above LIBOR.

In January 2019 the Company issued £5.3 million of secured loan notes with a six-year term and a 12% coupon which is compounded, rolled up and payable at the end of the term ("Loan Notes"). The proceeds of the Loan Notes were used to repay £4.125 million to Natwest and the RCF was reduced to £625,000. In February and March 2019, a further £4.7 million in total of Loan Notes were issued to repay the remaining Facilities, which were then cancelled, and provide additional working capital. The Loan Notes 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.

In December 2019 the Company issued an additional £1.5 million of Loan Notes (with the same terms as those issued in the first quarter of the year). The proceeds of the issue of the Loan Notes were used to fully repay certain lease agreements to which the Group was party and to provide additional working capital for the Company.

The Loan Notes are held at amortised cost using the effective interest rate method. The effective interest rate for the Loan Notes has been calculated to be 18%.

Notes to the Consolidated Financial Statements *(continued)*

22 Borrowings *(continued)*

Lease liabilities

The present value of lease liabilities is as follows:

Group	Gross contractual amounts payable 2019 £000	Interest 2019 £000	Carrying amount 2019 £000
Less than one year	**1,945**	**179**	**1,766**
Between one and five years	**1,686**	**407**	**1,279**
Greater than five years	**644**	**64**	**580**
	4,275	**650**	**3,625**

Finance lease obligations at 31 December 2018 were:

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
	812	104	708

The Company has no lease liabilities at 31 December 2019 (31 December 2018: nil)

Reconciliation of borrowings:

Group	Non-current Lease liabilities £000	Current Lease liabilities £000	Non-current Borrowings £000	Current Borrowings £000	**Total Borrowings £000**
Balance at 1 January 2019	494	214	-	7,586	**8,294**
Non-cash changes					
Transfer from current to non-current	1,239	(1,239)	-	-	**-**
Lease liabilities recognised on transition	126	5,398	-	-	**5,524**
Loan note interest	-	-	1,089	-	**1,089**
Lease interest	-	318	-	-	**318**
Amortisation of loan fee	-	-	-	138	**138**
Loan fees accrued	-	-	-	(69)	**(69)**
Fees in respect of loan notes	-	-	(135)	-	**(135)**
Interest and other charges	-	104	-	29	**133**
Cash flows					
Issue of loan notes	-	-	11,520	-	**11,520**
Repayment of loan	-	-	-	(4,750)	**(4,750)**
Repayment of lease liabilities	-	(2,605)	-	-	**(2,605)**
Overdraft repaid	-	-	-	(2,905)	**(2,905)**
Interest paid		(422)		(29)	**(451)**
Balance at 31 December 2019	1,859	1,766	12,474	-	**16,099**

Notes to the Consolidated Financial Statements *(continued)*

22 Borrowings *(continued)*

Company	Non-current Lease liabilities £000	Current Lease liabilities £000	Non-current Borrowings £000	Current Borrowings £000	**Total Borrowings £000**
Balance at 1 January 2019			-	4,681	**4,681**
Non-cash changes					
Loan note interest	-	-	1,089	-	**1,089**
Amortisation of loan fee	-	-	-	69	**69**
Fees in respect of loan notes	-	-	(135)	-	**(135)**
Interest and other charges	-	-	-	44	**44**
Cash flows					
Issue of loan notes	-	-	11,520	-	**11,520**
Repayment of bank loan	-	-	-	(4,750)	**(4,750)**
Interest paid	-	-	-	(44)	**(44)**
Balance at 31 December 2019	-	-	12,474	-	**12,474**

23 Convertible loan notes

Group and Company

	£000
Balance at 1 January 2019	1,654
Interest unwound	149
Balance at 31 December 2019	**1,803**

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. At issue, 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).

24 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 convertible loan notes 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

Assets	**2019 £000**	2018 £000
Amortised cost:		
Trade receivables net of credit loss provision	**5,409**	6,383
Contract assets	**590**	662
Other receivables	**348**	-
Cash and cash equivalents	**679**	-
Total	**7,026**	7,045

Notes to the Consolidated Financial Statements *(continued)*

24 Financial instruments by category *(continued)*

Company

		(Restated)
	2019	2018
Assets	**£000**	£000
Amortised cost:		
Trade receivables	**-**	9
Other receivables	**-**	39
Amounts due from subsidiary undertakings	**18,940**	26,782
Cash and cash equivalents	**103**	5,488
Total	**19,043**	32,318

The carrying amount of these assets is equivalent to their fair value. At 31 December 2019, trade receivables are reported net of the expected credit loss provision of £0.6 million (2018: £0.7 million), amounts due from subsidiary undertakings are reported net of the expected credit loss provision of £49 million (2018: £30 million)

Group

	2019	2018
Liabilities at amortised cost	**£000**	£000
Trade payables	**5,624**	4,883
Accruals and other payables	**1,714**	2,000
Bank loan	**-**	4,750
Bank overdraft	**-**	2,905
Lease liabilities (2018: finance leases)	**3, 625**	708
Convertible loan notes	**1,803**	1,654
Loan Notes	**12,474**	-
Total	**25,240**	16,900

Company

	2019	2018
Liabilities	**£000**	£000
Trade payables	**752**	156
Accruals and other payables	**119**	291
Intercompany payables	**1,204**	1,204
Bank loan	**-**	4,750
Convertible loan notes	**1,803**	1,654
Loan Notes	**12,474**	-
Total	**16,352**	8,055

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

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

Notes to the Consolidated Financial Statements *(continued)*

25 Financial risk management

The Group's activities are exposed to a variety of financial risks: market risk (including 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 interest risk
The Group 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. During the year under review, these borrowings were repaid and replaced with loan notes with a fixed rate of interest. The further loan notes issued in December 2019 also have a fixed rate of interest.

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 £0.6 million (2018: £0.7 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			More than	
	Within 1 year	1-2 years	2 years	**Total**
At 31 December 2019	£000	£000	£000	**£000**
Trade and other payables	7,337	--	-	**7,337**
Lease liabilities	1,945	619	1,711	**4,275**
Convertible loan notes	-	-	1,803	**1,803**
Loan Notes	-	-	12,474	**12,474**
	9,282	619	15,988	**25,889**

Notes to the Consolidated Financial Statements *(continued)*

25 Financial risk management *(continued)*

Group At 31 December 2018	Within 1 year £000	1-2 years £000	More than 2 years £000	Total £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**
	10,829	246	6,717	**17,792**

Company **At 31 December 2019**	**Within 1 year £000**	**1-2 years £000**	**More than 2 years £000**	**Total £000**
Trade and other payables	871	-	-	**871**
Intercompany payables	1,204	-	-	**1,204**
Convertible loan notes	-	-	1,803	**1,803**
Loan Notes	-	-	12,474	**12,474**
	2,075	-	**14,277**	**16,352**

Company At 31 December 2018	Within 1 year £000	1-2 years £000	More than 2 years £000	Total £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
	1,753	41	6,424	8,218

26 Capital risk management

The Group's objectives when managing capital is 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, from time-to-time 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, bank debt and bank facilities, and both unsecured and secured loan notes. The Group monitors capital on the basis of the ratio of net debt to adjusted EBITDA. As at 31 December 2019 the ratio was 11.9. Net debt as at 31 December 2019 is calculated as total bank borrowings, as at 31 December 2019 nil, 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.

The loan note instrument under which the Secured Loan Notes were issued does not contain any covenants, however, the Group continues to carefully monitor its capital position. The Group adopts a risk-averse position with respect to borrowings and maintains significant headroom to ensure that any unexpected situations do not create financial stress.

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

Notes to the Consolidated Financial Statements *(continued)*

27 Called up share capital – Group and Company

Share capital	2019 Number	2018 Number
At 1 January – fully paid	**400,802,032**	200,729,121
Shares issued on subscription, 1 August 2018	-	20,000,000
Shares issued on placing, 21 August 2018	-	180,072,911
In issue at 31 December – fully paid	**400,802,032**	400,802,032

	2019 £	2018 £
Allotted, called up and fully paid		
Ordinary shares of 2.5p	**10,020,050**	10,020,050
Shares classified in shareholders' funds	**10,020,050**	10,020,050

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.

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 2019.

Dividends

The Directors do not propose a dividend for the year ended 31 December 2019 (2018: £nil).

28 Share-based payment plans

The share-based payment charge comprises:

	2019 £000	2018 £000
(Reversal of)/ equity-settled share-based charges arising from ESS/ CSOP options	-	(193)
(Reversal of)/ equity-settled share-based charges arising from hurdle share options	-	(13)
Equity-settled share-based charges arising from warrants	**86**	4
Total charge/(credit)	**86**	(202)

Notes to the Consolidated Financial Statements *(continued)*

28 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 was 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 was 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 in 2018 have an exercise price of 2.5 pence.

	MXC warrants	CSOP/ESS number of options	Total number of warrants/options
Options/warrants granted at 1 January 2019	**20,040,101**	**88,888**	**20,128,989**
Options lapsed in year	-	(88,888)	(88,888)
Total options/warrants granted at 31 December 2019	**20,040,101**	**-**	**20,040,101**

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 31 December 2018 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 and warrants during the year:

	2019 Number	**2019 WAEP**	2018 Number	2018 WAEP
Opening balance	**20,128,989**	**£0.17**	13,720,205	£0.30
Granted during the year	**-**	**-**	10,003,645	£0.03
Lapsed during the year	**(88,888)**	**£0.30**	(3,594,861)	£0.30
Closing balance	**20,040,101**	**£0.17**	20,128,989	£0.17

There were no options or warrants exercisable at 31 December 2019 (2018: nil).

The exercise prices for warrants outstanding at the end of the year ranges from £0.025 - £0.30 (2018: ranged from £0.025 - £0.30). There are 10,036,456 warrants with an exercise price of £0.30 to £0.325 which had a vesting date of 31 December 2018 and expiry date of 31 December 2022; these are considered to be so far out of the money and well below the share price conditions that they will not be exercised; a further 10,003,645 warrants have an exercise price of £0.025, a vesting date of 1 August 2021 and an expiry date of 31 December 2022.

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.

Notes to the Consolidated Financial Statements *(continued)*

29 Pensions

The Group operates a defined contribution pension schemes for eligible employees. The charge for the year ended 31 December 2019 relating to continuing operations is £0.6 million (continuing operations 2018: £0.6 million). An amount of £53k is included in creditors being outstanding contributions at 31 December 2019 (2018: £53k).

30 Related parties

Key management is considered to comprise only the Directors. Directors' emoluments are disclosed in note 10. Social security costs in respect of Directors' emoluments were £19.5k (2018: £44k).

Ian Smith, Executive Director at 31 December 2019, 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 2019.

During the year, the Group and Company paid MXC Capital Markets LLP, a subsidiary of MXC, corporate finance advice and other services amounting to £47,000 (2018: £nil). The balance owed to MXC Capital Markets LLP as at 31 December 2019 was £57,000 (2018: £nil).

In addition, the Group paid MXC Advisory Limited, a subsidiary of MXC, fees of £229,259 (2018: £28,713) 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 2019. The balance owed to MXC Advisory Limited as at 31 December 2019 was £345,854 (2018: £101,031)

The Group also paid MXC Guernsey Limited, a subsidiary of MXC Capital Limited, fees of £239,799 (2018: £nil) in respect of underwriting of loan notes and guarantee fee of the finance leases with Lombard. The balance owed to MXC Guernsey as at 31 December 2019 was £239,799 (2018: £nil).

At 31 December 2019, in addition to owning shares in the Company, MXC Capital Limited held warrants over 20,040,101 shares in the Company (2018: 20,040,101 shares).

During the year, Kestrel Partners LLP invoiced the Company £30,092 (2018: £7,177) in respect of the services of Max Royde and Sebastian White as Non-Executive Directors. The balance owed to Kestrel Partners LLP as at 31 December 2019 was £6,030 (2018: £5,613)

The Company had the following balances with its subsidiary companies:

	2019	**2018**
Receivables	**£000**	**£000**
IDE Group Limited	**53,647**	**53,612**
IDE Group Manage Limited	**11,680**	**39**
IDE Group Connect Limited	**2,366**	**2,506**
Assistance Genie Logiciel	**151**	**161**
IDE Group Voice Limited	**3**	**3**
IDE Group Protect Limited	**9**	**9**
IDE Group Financing Limited	**47**	**8**
IDE Group Subholdings Limited	**1**	**-**
Total	**67,904**	**56,338**

A provision of £1m was made in respect of the IDE Group Manage receivable, a provision of £0.2m was made in respect of IDE Group Connect and a provision of £47.5m was made in respect of IDE Group Limited receivable. All other receivables were provided for in full.

	2019	2018
Payables	**£000**	£000
IDE Group Connect	**-**	-
Cupid.com inc	**1,033**	1,033
Castle Digital services inc	**61**	61
Selection Services Limited	**61**	61
Hooya Digital Limited	**42**	42
Connexions4London Limited	**6**	6
Aggregated Telecom Limited	**1**	1
Total	**1,204**	1,204

Notes to the Consolidated Financial Statements *(continued)*

31 Post balance sheet events

Covid-19

The unprecedented and continually changing circumstances surrounding the COVID-19 outbreak provide an uncertain economic landscape.

Whilst it is difficult to predict accurately the potential long-term consequences, we remain vigilant and, in common with all businesses, are closely monitoring the situation and to date there has been no material adverse effect on the business as IT managed services have remained buoyant during the UK-wide lock down; with increased reliance on mobile working and the need to facilitate customers' staff working remotely, in addition there has been increased demand for lifecycle services which necessitated an increase in shifts and production, and this has offset modest reductions in user support desk activities.

The Directors have taken advantage of the Government's Job Retention Scheme to furlough some staff members during the lock down period, as well as senior staff taking a short-term 20% salary reduction, and also deferment of PAYE and VAT cash payments to maximise cash flows.

We have continued to see new opportunities during lock-down, and believe that the demand for centralised managed services, cloud, user support desk, mobile working & collaboration, and over-arching business continuity solutions will provide good opportunities during the remainder of 2020.

We therefore do not expect an adverse effect on asset values, with the exception of some receivable balances, which we do not foresee being material due to the sectors in which our largest clients operate and the critical nature of the services we provide.

Nimoveri Acquisition

On 1 June 2020, the Group completed the acquisition of Nimoveri Holdings Limited, a small cloud and IT services business, for a total consideration of £200,000; £100,000 paid in cash on completion, and £100,000 of secured 0% loan notes redeemable 31 December 2021. The initial accounting for this is still incomplete.