CORETX Holdings Plc

(“CORETX”, the “Group” or the “Company”)

Audited Results for the Year ended 31 December 2016

CORETX Holdings plc (AIM: COR), the mid-market network, cloud and IT managed services provider, is pleased to announce its audited results for the year ended 31 December 2016.

Highlights

- £30.0 million fundraising (before expenses of £0.7 million) and acquisition of Selection Services Investments Limited, a provider of Managed IT Solutions and Cloud and network services in January 2016
- Acquisition of C4L Group Holdings Limited, a network services and data centre hosting business in February 2016
- Successful rebranding of the Company as CORETX Holdings plc in April 2016
- Experienced management team recruited and Board strengthened
- Revenues of £43.4 million (2015: nil)
- Adjusted EBITDA* of £4.9 million (2015: Adjusted EBITDA* loss of £0.5 million)
- New bank facilities agreed with Royal Bank of Scotland to support growth and acquisitions

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

Post period-end highlights

- Investment of £0.5 million in a new facility in Dartford to deliver Lifecycle managed services
- Significant new customer contracts with a value of £5.9 million signed for Lifecycle services to configure, deploy and support over 80,000 new end user devices through their full life
- Acquisition of 365 ITMS Limited on 5 April 2017 which provides IT support and services to the UK mid-market, bringing significant expertise in voice, unified communications and cloud

Jonathan Watts, Non-Executive Chairman of CORETX, commented:

“I’m pleased to present CORETX’s first full year results as a Cloud and Managed IT Services business, a period which has involved a significant level of activity for the Group. With two acquisitions, the focus has been on integration whilst maintaining an unwavering focus on customers and our ability to best support their needs. With a new leadership team and a clearly defined strategy we believe we are well positioned to drive both further organic and acquisitive growth, the latter evidenced by the post period end acquisition of 365 ITMS Limited announced this morning. We look forward to the future with confidence.”

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

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CHAIRMAN'S STATEMENT

I'm pleased to present CORETX's first full year results as a Cloud and Managed IT Services business, a period which has involved a significant level of activity for the Group.

The year began with the acquisitions of Selection Services Investments Limited ("Selection") and C4L Group Holdings Limited ("C4L"), enabled through an oversubscribed placing with institutional shareholders.

In the months since, the Chief Executive Officer, Andy Ross, has successfully integrated the businesses onto a single platform under the new CORETX brand. The work has been guided by an unwavering focus on customers and improving CORETX's ability to support their needs with the best advice and solutions.

This has been accomplished through the recruitment of a new leadership team, restructuring the sales teams and a significant investment to unify the Group's back-office operations, with new systems enhancing customer service and enabling the business to scale rapidly. Looking to the future, the first intake into a new apprenticeship scheme has also been welcomed.

The Group's service portfolio has both been extended in capability and scope. The CORETX network now provides faster connectivity, improved security and enhanced public cloud connections with new partnerships further extending and improving the service proposition. All this augurs well as mid-market organisations begin to embrace the opportunities cloud based solutions offer.

Notwithstanding all this activity the Group has continued to increase revenue and gross margin. The level of recurring revenue, a key performance indicator, has improved by 1% in the second half over the first half, whilst the Group was cash generative in the second half following the acquisitions in the first half. Importantly, all key metrics showed an improved performance in the second half of the year over the first, reflecting underlying improvement in operations.

With a clearly defined strategy, customer driven focus and enhanced operational capability, CORETX is well positioned to become a leading provider of Cloud and Managed IT Services to the UK mid-market.

The Group has started the 2017 year in line with expectations and there is a healthy pipeline of opportunities within the existing customer base, as well as with potential new customers.

In conclusion, 2016 has been a year of good progress and the Board is optimistic that further success lies ahead during 2017 and beyond through both organic and inorganic activities.

Jonathan Watts
Non-Executive Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

2016 has been a year of significant progress for CORETX.

The acquisitions of Selection and C4L in early 2016 gave us the initial building blocks for the new CORETX business, providing a good platform from which to move forwards with our objective of becoming a leading Cloud and Managed Services provider to the UK mid-market, where demand for Cloud based solutions and managed services remains high.

Much of the focus in 2016 was on integrating both businesses we acquired into a single operating structure, with common processes and platforms. The investment and effort of doing this work straight away will help us integrate future acquisitions in a more cost effective and timely manner, and will protect margins going forwards by helping to reduce both operating costs and overheads. As part of the integration programme we rebranded the whole business as CORETX in April 2016.

We have also made significant changes to the senior management team, attracting experienced talent from within the industry who have knowledge of building and growing successful IT services companies, as well as promoting a number of managers from within the business who had the potential to contribute to the success of the business. This now gives us the management capability needed to scale the business going forwards.

Throughout the changes implemented over 2016, the needs of our customers have been at the forefront of our decisions. We aim to engage closely, to understand their business objectives and to provide them with the solutions they need.

We have improved our customer engagement model, ensuring we put the customer at the centre of everything we do, strengthening the platforms we use to manage communication with customers and manage day to day service, and improving our project management capabilities. Feedback from customers has been very positive, and is reflected in the extra revenue we have secured with existing customers through the second half of 2016.

We have invested in our portfolio of products and services by developing new offerings in Networks, Voice, Unified Communications, Mobility, Lifecycle, and Public and Private Cloud and partnering with a number of companies that have complementary products and services, all of which allow us to deliver better value-add to our customers. This has enabled us to grow our recurring Managed Services revenue, and increase the amount of professional services revenue from having a higher number of consultancy led engagements.

A new Talent and Training function has been established, and we launched the CORETX Learning Cloud in May 2016. This is a new online learning platform that has enabled us to deliver over 2,500 training courses to CORETX employees in 2016. We have also invested in a number of other talent and training initiatives, including TalentQ and Institute of Leadership and Management (ILM) training for middle management. On-going training forms a key part of our strategy to become a trusted advisor and long term business partner to our customers.

Our new Apprentice Programme was launched towards the end of 2016, and we now have ten Apprentices working within the business. We will continue to develop and expand our Apprentice Programme in 2017 and offer more opportunities for talented young people coming out of full-time education to start their careers with CORETX.

Our governance processes have been strengthened during the year. We have achieved ISO9001, ISO20001 and ISO27001 certification across the whole CORETX business, as well as PCI-DSS compliance for our Bournemouth data centre.

Our growth and improved trading performance in the second half of 2016 demonstrates the impact all these changes have made, including adding 30 new name customers over the year, and I am confident that we are now well placed to drive further organic growth in 2017 and beyond. In addition, we will continue to actively seek out acquisition opportunities that have the right strategic fit, accelerate our growth trajectory and strengthen our market position.

Andy Ross

Chief Executive Officer

FINANCIAL REVIEW

Corporate activity

2016 was a transformative year for the Group. In line with its stated buy and build strategy, the Group had been seeking to identify and invest in a profitable business with experienced senior management, good growth opportunities, positive cash flows and good revenue visibility. In January 2016, the Company raised £30 million, before expenses of £0.7 million, by way of a placing of new ordinary shares supported by institutional investors. The proceeds of the placing were used in part to fund the acquisition of Selection Services Investments Limited ("Selection"), a company providing managed IT solutions and Cloud and network services, for a consideration of £34.8 million, settled in cash and new ordinary shares.

In January 2016, the Group secured new bank facilities with The Royal Bank of Scotland plc ("RBS"). The facilities comprise a five year £7.0 million Revolving Credit Facility ("RCF") and a £2.0 million overdraft facility. The RCF also contains an accordion feature that allows the total facility to be increased by up to a further £10.0 million.

In February 2016, the Group acquired C4L Group Holdings Limited ("C4L"), a network services and data centre hosting business, for £20.2 million, settled in shares and cash.

In September 2016, the Group announced the disposal of its subsidiary CORETX Media Limited, which had been acquired as part of C4L, for £1.

Results for the year

The results for the year to 31 December 2016 include contributions of eleven and a half months from Selection and of ten and a half months from C4L. The Group reported total revenues of £43.4 million and gross profit of £17.8 million for the period. In the year to 31 December 2015, the Group was defined as an investing company under the AIM Rules for Companies and reported nil revenue and nil gross profit.

Administrative expenses of £21.6 million (2015: £1.3 million) include £2.95 million of exceptional costs in relation to the acquisitions of Selection and C4L, a charge of £3.1 million for the amortisation of intangible assets and depreciation of tangible fixed assets of £2.5 million.

The Group reported an adjusted EBITDA, defined as earnings before interest, tax, depreciation, amortisation, exceptional items, gains/losses on disposal of fixed assets and share based payments of £4.9 million (2015: adjusted EBITDA loss of £0.5 million).

The Group reported a loss before tax of £4.1 million (2015: loss of £0.6 million) after incurring net financial costs of £0.3 million (2015: net financial income of £0.7 million).

A reduction of the corporation tax rate from 20% to 19% in 2015 in addition to the utilisation of tax losses has resulted in a tax credit for the year of £0.7 million (2015: tax cost of £0.4 million).

The Group therefore reported a loss attributable to shareholders of £3.4 million (2015: profit of £0.8 million), which equates to a basic loss per share of 1.88p (2015: basic earnings per share of 1.05p).

Balance sheet

The Group has tangible assets of £13.7m (2015: £nil) of which £11.2m relates to network infrastructure acquired during 2016. Intangible assets were £60.3 million at 31 December 2016 (2015: £nil), of which goodwill arising from the acquisitions of Selection and C4L constitutes £32.3 million and customer contracts and related relationships constitutes £26.4 million.

As at 31 December 2016 the Group had cash of £1.1 million (2015: £22.8 million), finance lease liabilities of £1.1 million (2015: £nil) and had borrowed £5.5 million under the RCF described above.

Dividend

The Directors do not propose a dividend in respect of the current financial year (2015: £nil).

Name Change

The Company's name changed from Castle Street Investments plc to CORETX Holdings plc on 11 April 2016.

Update and outlook for 2017

On 5 April 2017, the Group completed the acquisition of 365 ITMS Limited for a consideration of £4.6 million comprising cash of £1.6 million and equity in the Company equivalent to £3.0 million and assumed 365 ITMS Limited's cash balances of £0.6 million and debt balance with RBS of £1.4 million. 365 ITMS Limited provides IT support and services to the UK mid-market and has offices in Riseley and Poole. 365 ITMS Limited brings significant expertise in voice, unified communications and cloud, adding to the portfolio of services provided by the Group.

The Group has started 2017 in line with expectations and there is a healthy pipeline of opportunities within the existing customer base and with new prospective customers. The Group also expects to benefit from the opportunities arising from the acquisition of 365 ITMS Limited, which will broaden both the Group's customer base and portfolio of services.

Going concern

The Directors have prepared detailed cash flow projections including sensitivity analysis on key assumptions. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance and the timing of key strategic events, show the Group will be able to operate within the level and conditions of available funding. Based on the level of support demonstrated by the equity placing and securing of new bank facilities during the year, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

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

Julian Phipps
Chief Financial Officer

Consolidated Income Statement
for the year ended 31 December 2016

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Continuing operations		
Revenue	**43,422**	-
Cost of sales	**(25,580)**	-
Gross profit	**17,842**	-
Administrative expenses	**(21,638)**	(1,273)
Adjusted EBITDA*	**4,902**	(513)
Exceptional items	**(2,950)**	(760)
Depreciation	**(2,461)**	-
Amortisation	**(3,079)**	-
Loss on disposal of fixed assets	**(117)**	-
Charges for share-based payments	**(91)**	-
Operating loss	**(3,796)**	(1,273)
Finance income	**7**	659
Finance costs	**(308)**	-
Loss on ordinary activities before taxation	**(4,097)**	(614)
Income tax	**658**	(363)
Loss for the year from continuing operations attributable to owners of the parent company	**(3,439)**	(977)
Result/profit for the year from discontinued operations attributable to the owners of the parent company	**-**	1,727
(Loss)/profit for the year attributable to the owners of the parent company	**(3,439)**	750
	========	=======
Earnings/(loss) per share		
Basic loss per share from continuing operations	**(1.88p)**	(1.38p)
Basic profit per share from discontinued operations	**n/a**	2.43p
Total basic (loss)/earnings per share	**(1.88p)**	1.05p
Diluted loss per share from continuing operations	**(1.88p)**	(1.38p)
Diluted profit per share from discontinued operations	**n/a**	2.43p
Total diluted (loss)/earnings per share	**(1.88p)**	1.05p

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

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2016

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
(Loss)/profit for the year attributable to the owners of the parent company	**(3,439)**	750
Items that are or may be reclassified subsequently to the income statement		
Foreign exchange translation differences – equity accounted investments	**38**	-
Total other comprehensive income	**38**	-
Total comprehensive income for the year attributable to the owners of the parent company	**(3,401)**	750

Statement of Financial Position

As at 31 December 2016

	2016 £000	2015 £000
Non-current assets		
Property, plant and equipment	**13,677**	-
Intangible assets	**60,301**	-
Investments	**-**	-
Financial assets	**85**	74
	74,063	74
Current assets		
Trade and other receivables	**8,918**	80
Cash and cash equivalents	**1,132**	22,769
	10,050	22,849
Total assets	**84,113**	22,923
Current liabilities		
Trade and other payables	**9,036**	1,146
Deferred income	**5,663**	-
Borrowings	**764**	-
Provisions	**2,323**	438
Tax payable	**9**	290
	17,795	1,874
Non-current liabilities		
Borrowings	**5,733**	-
Provisions	**666**	-
Deferred tax liabilities	**6,503**	-
	12,902	-
Total liabilities	**30,697**	1,874
Net assets	**53,416**	21,049
Equity attributable to equity holders of the parent		
Share capital	**4,773**	1,780
Share premium	**32,684**	-
Retained earnings	**16,089**	19,437
Foreign currency translation reserve	**(130)**	(168)
Total equity	**53,416**	21,049

Statements of Changes in Equity
for the year ended 31 December 2016

	Share capital	Share premium	Capital redemption reserve	Retained earnings	Foreign currency translation reserve	Merger reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2015	1,780	18,025	347	1,576	(168)	(1,261)	20,299
Total comprehensive income for the year							
Total comprehensive income	-	-	-	750	-	-	750
Transactions with owners recorded directly in equity							
Cancellation of share premium reserve	-	(18,025)	-	18,025	-	-	-
Cancellation of capital redemption reserve	-	-	(347)	347	-	-	-
Release of merger reserve	-	-	-	(1,261)	-	1,261	-
Balance at 31 December 2015	**1,780**	**-**	**-**	**19,437**	**(168)**	**-**	**21,049**
Total comprehensive loss for the year							
Loss for the financial year	-	-	-	(3,439)	-	-	(3,439)
Movement in foreign currency translation	-	-	-	-	38	-	38
Transactions with owners recorded directly in equity							
Share issues	2,993	32,684	-	-	-	-	35,677
Share based payments	-	-	-	91	-	-	91
Balance at 31 December 2016	**4,773**	**32,684**	**-**	**16,089**	**(130)**	**-**	**53,416**

Statement of Cash Flows
for the year ended 31 December 2016

	2016 £000	2015 £000
Cash flows from operating activities		
(Loss)/profit for the year	**(3,439)**	750
Adjustments for:		
Depreciation	**2,461**	-
Amortisation	**3,079**	-
Net financial expenses/(income)	**301**	(659)
Taxation	**(658)**	363
Share based payments	**91**	-
Loss/(gain) on disposal of fixed assets	**117**	(22)
Other reserve movements	**38**	-
	1,990	432
(Increase)/decrease in trade and other receivables	**(3,559)**	187
Increase/(decrease) in trade and other payables	**787**	(694)
Decrease in provisions	**(1,496)**	(2,569)
	(2,278)	(2,644)
Tax (paid)/received	**(151)**	960
Net cash from operating activities	**(2,429)**	(1,684)
Cash flows from investing activities		
Acquisition of Selection, net of cash acquired	**(34,233)**	-
Acquisition of C4L, net of cash acquired	**(14,291)**	-
Acquisition of property, plant and equipment	**(2,601)**	-
Acquisition of other intangible assets	**(5)**	-
Proceeds from sale of discontinued operations 2014	**-**	12,366
Acquisition of financial assets	**(12)**	(74)
Proceeds from sale of fixed assets	**-**	22
Net cash (used in)/generated from investing activities	**(51,142)**	12,314
Cash flows from financing activities		
Interest received	**7**	-
Interest paid	**(297)**	-
Share issue, net of expenses	**29,308**	-
New loans and borrowings, net of expenses	**5,392**	-
Repayment of loans and borrowings	**(1,494)**	-
New finance leases	**300**	-
Repayment of finance leases	**(1,282)**	-
Net cash generated from financing activities	**31,934**	-
Net (decrease)/increase in cash and cash equivalents	**(21,637)**	10,630
Cash and cash equivalents at 1 January	**22,769**	12,139
Cash and cash equivalents at 31 December	**1,132**	22,769

PUBLICATION OF NON-STATUTORY ACCOUNTS

This summary does not constitute statutory accounts within the meaning of the Companies Act 2006. It is an extract from the full accounts for the year ended 31 December 2016 on which the auditor has expressed an unqualified opinion and does not include any statement under section 498 of the Companies Act 2006. The full accounts contain a detailed statement of the accounting policies which have been used to prepare this summary and remained unchanged from the prior year. The accounts will be posted to shareholders on or before 28 April 2017 and subsequently filed at Companies House.

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

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Accounting policies

CORETX Holdings plc ("CORETX") 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.

On 11 April 2016, the Company changed its name from Castle Street Investments plc to CORETX Holdings plc.

1.1 Basis of preparation

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

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

The financial statements have been prepared on a going concern basis. The Directors have prepared cash flow forecasts for the Group following its acquisition of the entire issued share capital of Selection Services Investments Limited ("Selection") and C4L Group Holdings Limited ("C4L") in the year. These forecasts show that the Group expects to meet its liabilities from cash resources as they fall due for a period in excess of 12 months from date of approval of these financial statements.

On 25 January 2016, the Group secured new bank facilities with The Royal Bank of Scotland plc. The facilities comprise a five year £7.0 million Revolving Credit Facility available to the Group until 22 January 2021 and a £2.0 million overdraft facility, renewable annually. In addition, the Revolving Credit Facility also contains an accordion feature that allows the total facility to be increased by up to a further £10.0 million to support organic and growth initiatives.

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

1.2 Basis of Consolidation

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

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

Acquisition costs are expensed as incurred.

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

2 Segment reporting

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

The following table presents revenue and gross profit in respect of the Group's operating segments for the year ended 31 December 2016. Administrative expenses are not allocated against operating segments in the Group's internal reporting.

Continuing operations	Managed Services	Cloud Hosting	Networks	Projects	Central	Total
	£000	£000	£000	£000	£000	£000
Revenue	14,816	11,158	9,282	8,166	-	43,422
Cost of Sales	(8,435)	(5,496)	(6,541)	(5,108)	-	(25,580)
Gross profit/(loss)	6,381	5,662	2,741	3,058	-	17,842
Administrative expenses	-	-	-	-	(21,638)	(21,638)
Operating profit/(loss)	6,381	5,662	2,741	3,058	(21,638)	(3,796)
Analysed as:						
Adjusted EBITDA	6,381	5,662	2,741	3,058	(12,940)	4,902
Exceptional costs	-	-	-	-	(2,950)	(2,950)
Depreciation	-	-	-	-	(2,461)	(2,461)
Amortisation of intangible assets	-	-	-	-	(3,079)	(3,079)
Loss on disposal of fixed assets	-	-	-	-	(117)	(117)
Share based payments	-	-	-	-	(91)	(91)
Net financial costs	-	-	-	-	(301)	(301)
Profit/(loss) before taxation	6,381	5,662	2,741	3,058	(21,939)	(4,097)
Tax on profit/(loss) on ordinary activities	-	-	-	-	658	658
Profit/(loss) for the year after taxation	6,381	5,662	2,741	3,058	(21,281)	(3,439)

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

During the year ended 31 December 2015, the Group operated as an Investing Company. As a result, the Group had no operating segments and consequently, no segmental analysis has been prepared for the 2015 financial year.

The Group had one customer who accounted for more than 10 percent of the Group's revenue during the year (2015: nil).

In respect of turnover by geographical location for the year ended 31 December 2016, turnover of £41.5 million (2015: £nil) was generated in the United Kingdom, £1.7 million (2015: £nil) was generated in Europe and £0.2 million (2015: £nil) was generated outside of Europe.

3 Exceptional costs

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

	2016	2015
	£000	£000
Continuing		
Restructuring and reorganisation costs	**2,056**	-
Acquisition costs	**894**	760
Discontinued		
Restructuring and reorganisation costs	**-**	458
	2,950	1,218

Restructuring and reorganisation costs on continuing operations relate to costs incurred on the integration of the Selection and C4L businesses which were acquired during the year. These costs include employment related costs of staff made redundant as a consequence of integration, rebranding costs, other non-recurring costs associated with the integration during the year and costs following the disposal of the Group's legacy business.

Acquisition costs relate to costs incurred on the acquisitions of Selection and C4L during the year and include legal, financial due diligence and corporate advisory fees. Acquisition costs of £0.8 million were accrued at 31 December 2015 in respect of the Selection acquisition.

4 Business combinations

Selection

On 21 January 2016, the Company acquired the entire issued share capital of Selection Services Investments Limited and its subsidiary entities ("Selection"), a United Kingdom focused provider of IT solutions and Cloud Services with over 500 active customers. The enterprise value of Selection was £34.8 million, paid as £34.4 million in cash with the balance satisfied by the issue of 1,353,810 new ordinary shares.

From the date of acquisition to 31 December 2016, Selection recorded revenue of £32.0 million and a profit before tax of £0.3 million. Assuming the combination had taken place at the beginning of the year, the interim reported revenue from Selection would have been £33.4 million and the loss before taxation would have been £0.4 million.

Acquisition costs for Selection were £0.9 million, £0.8 million of which had been accrued at 31 December 2015.

C4L

On 16 February 2016, the Group acquired the entire issued share capital of C4L Group Holdings Limited and its subsidiary entities ("C4L"), a successful and growing network services and data centre hosting business with over 550 active customers, for a total consideration of £20.2 million, paid as £14.2 million in cash with the balance satisfied by the issue of 18,346,918 new ordinary shares. C4L brings a high quality core network infrastructure with substantial capacity for growth and a broad data centre infrastructure.

From the date of acquisition to 31 December 2016, C4L recorded revenue of £11.3 million and a loss before tax of £0.4 million. Assuming the combination had taken place at the beginning of the year, the interim reported revenue from C4L would have been £13.1 million and the loss before taxation would have been £0.6 million.

Acquisition costs for C4L of £0.8 million were incurred in the year.

The total goodwill and intangible assets arising from the acquisitions is the difference between the fair value of the consideration less the provisional value of the assets acquired.

	Selection	C4L	Total
	£000	£000	£000
Fair value of purchase consideration	34,771	20,211	54,982
Less fair value of assets acquired:			
Property plant and equipment	(1,544)	(12,110)	(13,654)
Intangible assets	-	(336)	(336)
Other non-current assets	(632)	-	(632)
Trade receivables	(2,271)	(1,077)	(3,348)
Other debtors	(709)	(913)	(1,622)
Cash	(132)	43	(89)
Trade payables	3,052	1,878	4,930
Other liabilities	5,375	7,604	12,979
Provisions	900	3,080	3,980
Goodwill and intangibles	38,810	18,380	57,190

The consideration was satisfied as follows:

	Selection	C4L	Total
	£000	£000	£000
Cash on completion	34,365	14,248	48,613
Equity	406	5,963	6,369
	34,771	20,211	54,982

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

For customer contracts, the fair value of intangible assets was calculated by using the discounted cash flows arising from the existing customer contracts base for both businesses. Customer retention was assumed to be 75% for Selection and 27% for C4L, based on past experience. For trademarks, the fair value of intangible assets was calculated by using the discounted cash flow arising from revenues that would be generated if the trademarks were to be licensed to a third party, which was assumed to be 1% of total revenue.

Long term growth rates were applied with a post-tax discount rate of 10.0%. The reasonable economic life of technology, customer relationships and trademarks was assumed to be as follows:

- Customer relationships 5 to 13 years
- Trademarks 5 years

Customer relationships are assumed on average to last from 5 years to 9 years in duration, except for our largest customer, where it has been assumed a longer relationship period will exist.

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

	Selection	C4L	Total
	£000	£000	£000
Intangible asset - customer contracts and relationships	27,347	1,729	29,076
Intangible asset - trademarks	-	1,707	1,707
Separately identifiable intangible assets	27,347	3,436	30,783
Deferred tax liability thereon	(5,195)	(654)	(5,849)
Goodwill	16,658	15,598	32,256
	38,810	18,380	57,190

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

5 Discontinued operations

On 8 September 2016, the Group agreed to sell its subsidiary undertaking, CORETX Media Limited ("CML") to Mathew Hawkins, Chief Technology Officer, who resigned with immediate effect as a Director of the Company, in order to focus full time on building a business within CML.

CML was acquired by the Group for no additional consideration as part of its acquisition of C4L Group Holdings Limited ("C4L") in February 2016 and was established by Mathew Hawkins to deliver network and other related services to media businesses. In the light of the nature of CML's business operations and commercial activity to date, which was considered not to be core to the Group's operations, its disposal was effected for £1, in conjunction with which, the Group will provide CML with fibre, network connectivity and other related services.

The results of CORETX Media Limited are not material to the Group and have not been disclosed under discontinued operations during the year. The discontinued costs in the prior year relate to costs incurred in ceasing the Group's legacy business.

6 Finance income and costs

Finance income

	2016	2015
	£000	£000
Other finance income	**7**	659

Finance costs

	2016	2015
	£000	£000
Interest payable on bank loans and overdrafts	**176**	-
Interest expense on finance lease obligations	**113**	-
Amortisation of loan arrangement fees	**19**	-
	308	-

7 Taxation

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

	2016	2015
	£000	£000
Current tax expense		
Current year	**-**	363
Adjustments for prior years	**(59)**	-
Current tax (credit)/expense	**(59)**	363
Deferred tax credit	**(599)**	-
Total tax (credit)/expense	**(658)**	363

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

Reconciliation of the total income tax (credit)/charge

	2016	2015
	£000	£000
(Loss)/profit for the year	**(3,439)**	750
Total tax (credit)/expense	**(658)**	363
(Loss)/profit before taxation	**(4,097)**	1,113
Tax using the United Kingdom corporation tax rate of 20% (2015: 20.25%)	**(819)**	225
Non-deductible expenses	**170**	252

Adjustments for prior years	**(59)**	-
Difference between book value and tax base of disposed assets	**-**	(4)
Income not taxable	**-**	(110)
Other items	**50**	-
Total tax (credit)/expense	**(658)**	363

(b) Deferred tax liability

	2016	2015
	£000	£000
At 1 January	**-**	-
Business combinations	**7,266**	-
Acquired with subsidiaries	**(164)**	-
Credit to income statement	**(599)**	-
At 31 December	**6,503**	-

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:

	2016	2015
	£000	£000
Depreciation in advance of capital allowances	**1,244**	-
On acquisitions	**5,275**	-
Other temporary differences	**(16)**	-
At 31 December	**6,503**	-

8 Earnings per share

Basic earnings per share has been calculated using the loss after tax for the year of £3,439,000 (2015: profit of £750,000) and a weighted average number of ordinary shares of 183,108,493 (2015: 71,201,993). The dilutive effect of share options and warrants at 31 December 2016 increased the weighted average number of ordinary shares to 194,909,006 (2015: 71,201,993).

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

	2016	2015
	£000	£000
(Loss)/profit from operations for the year	**(3,439)**	750
Tax (credit)/charge	**(658)**	363
Amortisation of acquired intangible assets	**3,079**	-
Share based payments	**91**	-

Release of exceptional cost provisions	**-**	(1,535)
Exceptional costs	**2,950**	1,218
Adjusted earnings before tax	**2,023**	796
Notional tax charge at standard rate	**(384)**	(159)
Adjusted earnings	**1,639**	637

	2016	2015
	Number	Number
Weighted average number of shares in issue	**183,108,493**	71,201,993
Weighted diluted effect of options and warrants in issue	**11,800,513**	-
Diluted weighted average number of shares in issue	**194,909,006**	71,201,993

Statutory basic earnings per share (pence)	**(1.88)**	1.05
Statutory diluted earnings per share (pence)	**(1.88)**	1.05
Adjusted basic earnings per share (pence)	**0.90**	0.89
Adjusted diluted earnings per share (pence)	**0.84**	0.89

9 Trade and other receivables

Current	**2016**	2015
	£000	£000
Trade receivables	**6,999**	-
Less provision for impairment of trade receivables	**(415)**	-
Trade receivables – net	**6,584**	-
Amounts due from subsidiary undertakings	**-**	-
Prepayments and other debtors	**2,334**	80
	8,918	80

As at 31 December 2016, trade receivables of £0.4 million (2015: £nil) were impaired and fully provided. The Directors monitor the quality of the receivables not impaired and believe them to be recoverable. The non-impaired receivables are fully performing and relate to independent customers with no history of default. The individually impaired receivables relate to receivables over 365 days, customers in financial difficulty, customer acceptance issues and cancelled contracts.

As at 31 December 2016, trade receivables of £0.7 million (2015: £nil) were past due but not impaired. In the table below, these comprise the receivables over 30 days, which relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of net trade receivables is as follows:

Days outstanding	**2016**	2015
	£000	£000
31 – 60 days	**267**	-
61 – 90 days	**250**	-
91 – 180 days	**90**	-
181 – 365 days	**47**	-
	654	-

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

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

	2016	2015
	£000	£000
At 1 January	**-**	-
Acquired with subsidiaries	**368**	-
Increase in impairment provision	**151**	-
Utilisation of impairment provision	**(104)**	-
At 31 December	**415**	-

The creation and release of a provision for impaired receivables has been included in "administrative expenses" in the Income Statement. Amounts charged to the allowance are generally written-off, when there is no expectation of recovering additional cash.

The other asset classes within trade and other receivables do not contain impaired assets.

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

10 Cash and cash equivalents

	2016	2015
	£000	£000
Cash and cash equivalents	**1,132**	22,769

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

Credit rating	**2016 £000**	2015 £000
A	**1,132**	22,769

11 Trade and other payables

	2016 £000	2015 £000
Current		
Trade payables	**5,715**	40
Amounts due to subsidiary undertakings	**-**	-
Other payables	**144**	-
Taxation and social security	**1,254**	-
Accruals	**1,923**	1,106
	9,036	1,146

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

12 Borrowings

	2016 £000	2015 £000
Non-current		
Bank loan	**5,500**	-
Unamortised loan arrangement fee	**(89)**	-
Finance leases	**322**	-
	5,733	-

	Group	
	2016 £000	2015 £000
Current		
Finance leases	**764**	-

On 25 January 2016, the Group secured new bank facilities with The Royal Bank of Scotland plc. The facilities comprise a five year £7.0 million Revolving Credit Facility available to the Group until 22 January 2021 and a £2.0 million overdraft facility, renewable annually. In addition, the Revolving Credit Facility also contains an accordion feature that allows the total facility to be increased by up to a further £10.0 million to support organic and growth initiatives. Interest is payable on the utilised Revolving Credit Facility at 2% above LIBOR. Interest is payable on the unutilised Revolving Credit Facility at 0.8%. At 31 December 2016, £5.5 million of the Revolving Credit Facility has been utilised.

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

	Carrying	**Fair**	Carrying	Fair

	value 2016 £000	Value 2016 £000	Value 2015 £000	Value 2015 £000
Non-current				
Bank loan	**5,500**	**4,995**	-	-
Finance leases	**322**	**294**	-	-
	5,822	**5,289**	-	-

The present value of finance lease liabilities is as follows:

	Minimum lease payments 2016 £000	Interest 2016 £000	Principal 2016 £000
Less than one year	**847**	**83**	**764**
Between one and five years	**368**	**46**	**322**
	1,215	**129**	**1,086**

13 Called up share capital

Share capital	**Number**
At 1 January 2015, 31 December 2015 and 1 January 2016	71,201,993
Shares issued on Placing, 21 January 2016	100,000,000
Shares issued on the acquisition of Selection	1,353,810
Shares issued on the acquisition of C4L	18,346,918
In issue at 31 December 2016 – fully paid	190,902,721

	2016 £	2015 £
Allotted, called up and fully paid		
Ordinary shares of 2.5p	**4,772,568**	1,780,050
Shares classified in shareholders' funds	**4,772,568**	1,780,050

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.

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

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

The Company has 190,902,721 ordinary shares issued and fully paid up as at the closing balance sheet date of 31 December 2016.

Dividends

The Directors do not propose a dividend for the year ended 31 December 2016 (2015: £nil).

The dividend of £2,136,000 paid to shareholders in July 2014 in respect of the year ended 31 December 2013 was potentially unlawful because no financial statements demonstrating that the company had distributable profits were lodged with Companies House. At the date of approval of the financial statements for the year ended 31 December 2015, a contingent asset relating to the recovery from shareholders of this dividend exists. The Directors had no intention of seeking to recover the amounts involved. A deed of resolution to a general meeting, absolving the Directors of any fault and the shareholders from any claims for recovery of the dividend was passed on 20 January 2016.

14 Related parties

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

Key management is considered to comprise only the Directors. Directors' emoluments, including share based payments are disclosed in note 9. Social security costs in respect of Directors' emoluments were £99,024 (2015: £59,112), of which £22,356 (2015: £nil) relates to social security costs on the Employee Share Scheme.

Andy Ross, Chief Executive Officer is a partner of MXC Capital Limited, the largest shareholder in the Company. MXC Capital Limited owns 22.52% of the issued share capital of the Company at 31 December 2016.

During the year, the Group and Company paid MXC Capital Limited for consultancy services, corporate finance advice and other services amounting to £1,071,243 (2015: £22,674) excluding VAT. Invoices totalling £3,000 were outstanding at 31 December 2016 (2015: £6,527). In addition, the Group paid MXC Advisory Limited, a subsidiary of MXC Capital Limited, fees of £161,743 excluding VAT (2015: £nil) in respect of the services of Andy Ross as Chief Executive Officer of the Group for the year ended 31 December 2016. Invoices totalling £17,400 were outstanding at 31 December 2016 (2015: £nil).

At 31 December 2016, in addition to owing shares in the Company, MXC Capital Limited held warrants over 9,545,130 shares in the Company (2015: none).

In the year ended 31 December 2016, the Group and Company paid rent of £1,500 (2015: £1,500) to Biebod Properties Limited, a company controlled by Bill Dobbie, a Director of the Company. There are no payables outstanding at 31 December 2016 (2015: £nil).

15 Post balance sheet events

On 5 April 2017, the Group completed the acquisition of 365 ITMS Limited for a consideration of £4.6 million comprising cash of £1.6 million and equity in the Company equivalent to £3.0 million and assumed 365 ITMS Limited's cash balances of £0.6 million and debt balance with RBS of £1.4 million. 365 ITMS Limited provides IT support and services to the UK mid-market and has offices in Riseley and Poole. 365 ITMS Limited brings significant expertise in voice, unified communications and cloud, adding to the portfolio of services provided by the Group.