CORETX Holdings plc

Formerly Castle Street Investments plc

Annual report and financial statements

Registered number SC368538

Year ended 31 December 2016

Contents

Company profile

The principal activities of CORETX Holdings plc (formerly Castle Street Investments plc) are the provision of network, hosting and managed services to public and private companies. Established in 2005, and admitted to AIM in 2010, the business changed its name to CORETX Holdings plc on 11 April 2016.

The country of incorporation is Scotland; the Company's registered number is SC0368538 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.coretx.com

Highlights

- £30.0 million fundraising (before expenses of £0.7 million) and acquisition of Selection Services Investments Limited ("Selection"), a provider of Managed IT Solutions and Cloud and network services in January 2016
- Acquisition of C4L Group Holdings Limited ("C4L"), 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)
- Statutory operating loss of £3.8 million (2015: loss of £1.3 million)
- Basic loss per share of 1.88p (2015: basic earnings per share of 1.05p)
- New bank facilities agreed with Royal Bank of Scotland
- £1.1 million of cash and cash equivalents at 31 December 2016 (2015: £22.8 million)
- Bank borrowings of £5.5 million (2015: £nil) and finance lease liabilities of £1.1m (2015: £nil) at 31 December 2016

* 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 £5.85 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

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

6 April 2017

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

6 April 2017

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).

Financial Review *(continued)*

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

6 April 2017

Board of Directors

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

Jonathan Watts	Appointed 21 January 2016
Andy Ross	Appointed 21 January 2016
Julian Phipps	Appointed 21 January 2016
Bill Dobbie	
Katherine Ward	Appointed 21 January 2016
Mathew Hawkins	Appointed 15 February 2016; resigned 8 September 2016
Simon Mewett	Appointed 15 February 2016; resigned 8 September 2016
Niall Stirling	Resigned 21 January 2016
Max Royde	Resigned 21 January 2016

A brief biography of the current Directors follows.

Jonathan Watts - Non-Executive Chairman

On 21 January 2016, Jonathan was appointed Non-Executive Chairman.

Jonathan is an experienced board executive with corporate governance experience within the IT, Telecommunications and Banking sector in the United Kingdom, Australasia and United States of America. Jonathan was President and Founder of GEO Networks, and has held board positions with Alliance and Leicester, Colt Telecommunications, NB3, Bell South and Control Data Corporation.

Jonathan serves on the Remuneration Committee and the Audit Committee.

Andy Ross - Chief Executive Officer

On 21 January 2016, Andy was appointed Chief Executive Officer.

Andy is an operational partner at MXC Capital Markets LLP, a subsidiary of MXC Capital Limited. Andy has over 35 years of experience in the IT industry and has previously held chief executive officer roles at Northgate Managed Services and Valldata, and senior director roles at Atos, EDS, Sema Group and KPMG.

Julian Phipps - Chief Financial Officer and Company Secretary

On 21 January 2016, Julian was appointed Chief Financial Officer and Company Secretary.

Julian is an experienced chief financial officer having spent over 20 years working in the technology sector. He has worked for a number of large IT and Telecommunications businesses including Updata, Northgate Managed Services, SunGard Availability Services and Parity. Prior to working in the technology sector, Julian worked for Coopers and Lybrand in Switzerland, Luxembourg and London.

Bill Dobbie - Non-Executive Director

Bill is an experienced entrepreneur and director specialising in internet, telecoms and technology businesses and founder of CORETX Holdings plc (formerly Castle Street Investments plc and Cupid plc). Bill founded Cupid plc following 7 years at Iomart Group plc in roles spanning founder to non-executive positions. Bill has been a director of Demon Internet, Prestel, Teledata, Scottish Telecom (Thus) and several other companies. Bill is currently a director of Cloudsoft Corporation, a private entity that produces software for managing public and private cloud infrastructure, and Edinburgh Alternative Finance Ltd, a peer to peer lender. He is also a non-executive director of Tag-Games Ltd, a provider of mobile and social games.

On 21 January 2016, Bill resigned as Chairman but remains a Non-Executive Director. On 21 January 2016, Bill resigned as Chairman of the Remuneration Committee, but continues to serve on the Remuneration Committee. Bill also serves on the Audit Committee.

Board of Directors *(continued)*

Katherine Ward - Independent Non-Executive Director

On 21 January 2016, Katherine was appointed as Independent Non-Executive Director.

Katherine has 15 years of experience as an Investment Banker, having worked at Morgan Stanley and Panmure Gordon. Katherine has extensive experience in advising companies on a range of strategic options, and has worked on multiple IPO launches, equity capital fundraisings and M&A transactions. During that time, Katherine was a Financial Services Authority Approved Person and had Nominated Advisor status for listed companies. Katherine is currently Vice President, Corporate Development and Investor Relations, at Wentworth Resource plc, a publicly listed oil and gas exploration and production company. Katherine holds a Bachelor's degree in Economics and Politics from the University of Bristol.

Katherine chairs the Remuneration Committee and the Audit Committee.

Corporate Governance Statement

As an AIM listed company, CORETX Holdings plc (CORETX) is not required to comply with the principles and provisions of the 2012 Corporate Governance Code. The Directors have decided to adopt the Corporate Governance Code for small and mid-sized quoted companies, as published by the Quoted Companies Alliance, and have sought to meet its recommendations in so far as it considers them appropriate for a company of CORETX's size and nature. This Statement and the Remuneration Committee Report summarises the Board's approach to corporate governance.

The Board of Directors

At 31 December 2016, the Board comprised the Non-Executive Chairman (Jonathan Watts), the Chief Executive Officer (Andy Ross), the Chief Financial Officer (Julian Phipps), one Non-Executive Director (Bill Dobbie) and one Independent Non-Executive Director (Katherine Ward).

On 21 January 2016, Jonathan Watts, Andy Ross, Julian Phipps and Katherine Ward were appointed to the Board. Bill Dobbie resigned as Chairman but remains a Non-Executive Director. On 21 January 2016, Max Royde resigned as a Non-Executive Director and Niall Stirling resigned as Chief Financial Officer and Company Secretary. On 15 February 2016, Mathew Hawkins was appointed Chief Technology Officer and Simon Mewett was appointed Chief Operating Officer. On 8 September 2016, Mathew Hawkins and Simon Mewett resigned from the Board.

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.

There are two standing Board Committees – Audit and Remuneration. Each of these committees acts within defined terms of reference. Additional information is set out later in this report and in the Directors' Remuneration Report in respect of the Remuneration Committee.

Authority for the execution of the approved policies, business plan and daily running of the business is delegated to the executive Directors. During the year, the Board met formally on 16 occasions.

Katherine Ward is the Senior Independent Non-Executive Director and has served on the Board since 21 January 2016.

The Company's Articles of Association require one third of the Directors to stand for re-election each year at the Annual General Meeting and that each Director should seek re-election every three years. In addition, Directors appointed by the Board during the year must seek re-appointment at the next Annual General Meeting. Accordingly, Bill Dobbie and Julian Phipps will retire and offer themselves for re-election at the forthcoming Annual General Meeting.

All Directors have access to the advice of the Company Secretary who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. The Board has a procedure whereby any Director may seek, through the office of the Company Secretary, independent professional advice, at the Company's expense, in furtherance of his or her duties.

Formal agendas and reports are provided to the Board on a timely basis for Board and Committee meetings and the Chairman ensures that all Directors are properly briefed on issues to be discussed at Board meetings. Directors can obtain further advice or seek clarity on issues raised at the meetings from within the Company or from external sources.

All Directors are subject to appraisal by the Board. The Independent Non-Executive Director is responsible for the evaluation of the Chairman.

Corporate Governance Statement *(continued)*

Board Committees

The Board has established two standing Board Committees to deal with specific aspects of the Board's affairs: Audit and Remuneration Committees. Each of these Committees acts within defined terms of reference.

Audit Committee

At 31 December 2016, the Audit Committee consisted of Katherine Ward (Chair), Jonathan Watts and Bill Dobbie.

On 21 January 2016, Jonathan Watts and Katherine Ward were appointed to the Audit Committee, with Katherine Ward replacing Max Royde as Chair. On 21 January 2016, Max Royde resigned from the Audit Committee following his resignation as Director of the Company.

The Audit Committee has formal terms of reference (available on request from the Company Secretary). Those include the recommendation, appointment, re-appointment and removal of the external auditors, the review of the scope and results of the interim review and external annual audit by the auditors, their cost effectiveness, independence and objectivity. The Committee also reviews the nature and extent of any non-audit services provided by the external auditors. In addition, the Committee reviews the effectiveness of internal controls, considers the need for an internal audit function and considers any major accounting issues and reports to the Board. The Audit Committee have concluded that due to the current size and complexity of the Company, a formal internal audit function is not required. The Committee reviews the integrity of the financial statements and formal announcements. A whistle-blowing arrangement exists whereby matters can be confidentially reported to the Committee. The Executive Directors are not members of the Committee but attend the meetings by invitation as necessary, to facilitate its business.

The Chief Financial Officer monitors the level and nature of non-audit services and specific arrangements are raised for approval by the Audit Committee as appropriate. The Audit Committee reviews non-audit fees and considers implications for the objectivity and independence of the relationship with external auditors. The Board is satisfied that the Chair of the Audit Committee has recent and relevant financial experience.

Remuneration Committee

At 31 December 2016, the Audit Committee consisted of Katherine Ward (Chair), Jonathan Watts and Bill Dobbie.

On 21 January 2016, Jonathan Watts and Katherine Ward were appointed to the Remuneration Committee, with Katherine Ward replacing Bill Dobbie as Chair. On 21 January 2016, Max Royde resigned from the Remuneration Committee following his resignation as Director of the Company.

Details of the Committee and its policies are set out in the Remuneration Committee report. The Committee has formal terms of reference (available on request from the Company Secretary).

Attendance at Board and Committee Meetings

Attendances of Directors at Board and committee meetings convened in the year, and which they were eligible to attend, are set out below:

	Monthly Board Meetings	Other Board Meetings	Remuneration Committee	Audit Committee
Number of meetings in year	12	4	5	3
Jonathan Watts – Chairman	12/12	0/3	4/4	3/3
Andy Ross – Chief Executive Officer	12/12	2/3	-	-
Julian Phipps – Chief Financial Officer	12/12	3/3	-	-
Bill Dobbie – Non-Executive Director	12/12	2/4	5/5	3/3
Katherine Ward – Non-Executive Director	12/12	1/3	5/5	3/3
Mathew Hawkins – former Chief Technology Officer	5/6	0/2	-	-
Simon Mewett – former Chief Operating Officer	4/6	0/2	-	-
Max Royde – former Non-Executive Director	-	1/1	-	-
Niall Stirling – former Chief Financial Officer	-	1/1	-	-

Simon Mewett was absent from 4 out of the 8 Board meetings he was eligible to attend, due to illness.

Corporate Governance Statement *(continued)*

Internal control

The Board has overall responsibility for the Group's system of internal controls and for reviewing its effectiveness. The implementation and maintenance of the risk management and internal control systems are the responsibility of the Executive Directors and senior management. The internal control system is designed to manage risk rather than eliminate it and can therefore only provide reasonable and not absolute assurance against material misstatement or loss. In accordance with the Turnball Guidance on Internal Control, the Group has an on-going process for identifying, evaluating and managing the significant risks faced by it.

The Group is committed to maintaining high standards of business conduct and operates under an established internal control framework covering financial, operational and compliance controls. This is achieved through an organisation structure that has clear reporting lines and delegated authorities, which are clearly defined. Management monitors the risk and performance of the Group. In addition, the Group maintains written processes to control expenditure, authorisation limits, purchase ordering, sales order intake, project management and assets to the extent applicable given the changes in the Group's activities during the year and up to the date of the approval of the Annual Report.

Financial control

The Board receives monthly financial information which includes key performance and risk indicators and the Chief Executive reports on significant changes in the business and the external marketplace to the extent that they represent risk. There is an established budgetary system with an annual budget approved by the Board. The Board reviews the results monthly against budget and forecasts, together with other business measures.

The principal treasury related risks are documented and approved by the Board.

Relations with shareholders and investors

Copies of the Annual Report are issued to all shareholders and copies are available on the Group's website www.coretx.com. The unaudited Interim Report is also available on the Group's website. The Group makes full use of its website to provide information to shareholders and other interested parties. The Company Secretary also deals with a number of written or e-mailed enquiries throughout the year.

Shareholders are given the opportunity to raise questions at the Annual General Meeting and the Directors are available both prior to and after the meeting for further discussion with shareholders.

During the year, the Chief Executive Officer and the Chief Financial Officer met with institutional investors after the announcement of interim and year-end results. Additional meetings were arranged by the Group's brokers, N+1 Singer Capital Markets Limited. Feedback arising from these meetings was communicated to the Board and the Company Secretary also reported to the Board on feedback from shareholders.

Katherine Ward, as Senior Independent Non-Executive Director, is available to shareholders if they wish to raise any matters that communication through the normal channels of Non-Executive Chairman, Chief Executive Officer or Chief Financial Officer has failed to resolve, or for which, such communication is inappropriate.

Corporate Governance Statement *(continued)*

Substantial Shareholders

At 31 December 2016 and at 31 March 2017, being the latest practicable date before the publication of the Annual Report, the Company has been notified of the following significant interests in its Ordinary, voting share capital:

Shareholder name	31 December 2016 Number	31 December 2016 %	31 March 2017 Number	31 March 2017 %
MXC Capital Limited[1]	43,000,000	22.52	43,000,000	22.52
Kestrel Partners LLP [2]	33,764,894	17.69	34,448,564	18.05
Mathew Hawkins[3]	16,370,627	8.58	16,370,627	8.58
Bill Dobbie[4]	14,676,053	7.69	14,676,053	7.69
Coltrane Asset Management	14,297,562	7.49	14,297,562	7.49
Liontrust Asset Management	11,837,979	6.20	11,837,979	6.20
Richard Griffiths	8,294,378	4.34	8,294,378	4.34
Elevage Limited	6,666,668	3.49	6,666,668	3.49
Artemis Investment Management	6,318,804	3.31	6,318,804	3.31

1. MXC Capital Limited is a related party; Andy Ross, Chief Executive Officer, is an operational partner of MXC Capital Markets LLP, a subsidiary of MXC Capital Limited
2. Max Royde, a former Director of the Company is Chief Executive Officer of Kestrel Partners LLP
3. Former Director of the Company
4. Current Director of the Company

Julian Phipps
Company Secretary

6 April 2017

Remuneration Committee report

Remuneration Committee

At 31 December 2016, the Remuneration Committee comprised Katherine Ward (Chair), Jonathan Watts and Bill Dobbie.

Katherine Ward and Jonathan Watts were appointed to the Remuneration Committee on 21 January 2016, with Katherine Ward replacing Bill Dobbie as Chair. Max Royde resigned from the Remuneration Committee on 21 January 2016.

The Committee makes recommendations to the Board, within agreed terms of reference, on the remuneration and other benefits, including bonuses and share based payments, of the Executive Directors.

In considering the remuneration for the year, the Committee consulted with the Executive Directors about its proposals. The Board sets the fees payable to the Non-Executive Directors.

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 £50,000 for the Chairman and £30,000 for the Non-Executive Directors. An additional annual fee of £5,000 is paid to the Independent Non-Executive Director for chairing the Audit and Remuneration Committees. The Chairman is entitled to private medical cover for themselves and their spouse.

Service Contracts

The Company's policy is for all Executive Directors to have service contracts with provision for termination of no more than six months' notice. The service contracts of the Executive Directors contain restrictive covenants for a period of twelve months following termination of their employment.

Non-Executive Directors have letters of appointment. Appointments can be terminated by the Company giving three months' notice or the individual giving three months' notice. The remuneration of the Non-Executive Directors takes the form solely of payments which are not pensionable.

The details of the Executive Director and Non-Executive Director service contracts are summarised below:

Remuneration Committee report *(continued)*

Service Contracts *(continued)*

	Contract date	Contract expiry date	Normal notice period
Executive Directors			
Andy Ross	21 January 2016	-	6 months
Julian Phipps	21 January 2016	-	6 months
Non-Executive Directors			
Jonathan Watts	21 January 2016	21 January 2019	3 months
Bill Dobbie	31 December 2015	21 January 2019	3 months
Katherine Ward	21 January 2016	21 January 2019	3 months

Bill Dobbie and Julian Phipps 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' emoluments

For Directors who held office during the year, emoluments for the year ended 31 December 2016 were as follows:

	Salary/fees £	Redundancy £	Benefits £	Bonus £	Pension £	**2016 total £**	2015 total £
Executive							
Andy Ross[1]	193,052	-	-	-	-	**193,052**	-
Julian Phipps	133,718	-	6,686	68,636	7,655	**216,695**	-
Mathew Hawkins	75,517	-	3,941	-	372	**79,830**	-
Simon Mewett	75,517	73,500	3,975	-	433	**153,425**	-
Niall Stirling	16,827	73,750	927	43,750	841	**136,095**	258,109
Phil Gripton	-	-	-	-	-	-	214,052
Non-Executive							
Jonathan Watts	47,180	-	1,425	-	-	**48,605**	-
Bill Dobbie	30,000	-	-	-	-	**30,000**	21,250
Katherine Ward	33,026	-	-	-	-	**33,026**	-
Max Royde	1,731	-	-	-	-	**1,731**	27,500
George Elliott	-	-	-	-	-	-	21,667
Total	**606,568**	**147,250**	**16,954**	**112,386**	**9,301**	**892,459**	**542,578**

1. Directors emoluments to Andy Ross are paid as follows:
   a. An annual salary of £30,000, paid monthly from CORETX Manage Limited, a Group subsidiary company; and
   b. An annual fee of £174,000, paid monthly to MXC Advisory Limited, a subsidiary company of MXC Capital Limited, which is a related party. Further details are provided in note 29.

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

Remuneration Committee report *(continued)*

Directors' interests in share options

The interests of the Directors at 31 December 2016 in options over the ordinary shares of the Company were as follows:

Name of Director	At 31/12/15	Granted	Lapsed	At 31/12/16	Exercise price	Market price at date of award	Date of grant	Date from when exercisable	Expiry date
Andy Ross	-	1,206,833	-	1,206,833	£0.30	£0.3950	16 Mar 2016	21 Jan 2019	21 Jan 2023
Julian Phipps	-	603,417	-	603,417	£0.30	£0.3950	16 Mar 2016	21 Jan 2019	21 Jan 2023
Jonathan Watts	-	666,666	-	666,666	£0.30	£0.3925	4 May 2016	21 Jan 2019	21 Jan 2021
Total	**-**	**2,476,916**	**-**	**2,476,916**					

Share price

The market price of the Company's shares on 31 December 2016 was 31.75p per share. The highest and lowest market prices during the year were 40p and 31.75p respectively.

Katherine Ward
Chair, Remuneration Committee
On behalf of the Board

6 April 2017

Strategic report

Review of the business

A detailed review of the business is set out in the Chairman's Statement, Chief Executive Officer's Review and the Financial Review. Included in these reviews are comments on the key performance indicators that are used by the Board on a monthly basis to monitor and assess the performance of the business.

In January 2016, the Company raised £30 million, before expenses of £0.7 million, by way of a placing 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 shares. 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.

The Consolidated Income Statement for the year is set out on page 25. 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 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.

Operating loss on continuing operations was £3.8 million (2015: loss of £1.3 million) and the adjusted EBITDA* of the Group was £4.9 million (2015: loss of £0.5 million). The Directors do not recommend the payment of a dividend for the year ended 31 December 2016 (2015: £nil).

As at 31 December 2016 the Group has cash of £1.1 million (2015: £22.8 million).

At 31 December 2016, the Board comprised of five Directors (2015: 3); four (2015: 3) of which are male and one (2015: nil) is female. At 31 December 2016, the Group's Senior Management consists of 32 individuals (2015: 2), 21 (2015: 2) of which are male and 11 (2015: nil) are female. At 31 December 2016, the Group had 401 employees including Directors (2015: 4), of which 318 (2015: 4) are male and 83 (2015: nil) are female.

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's compliance officer maintains a business risk register which is reviewed by the Board on a quarterly 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 24 contains details of financial risks.

Market and economic conditions

Market and economic conditions are recognised as one of the principal risks in the current trading environment. The risk is mitigated by the monitoring of trading conditions and changes in government legislation, the development of action plans to address specific legislative changes and the constant search for ways to achieve new efficiencies in the business without impacting level of service. The Group is currently evaluating the impact of the General Data Protection Regulation legislation on its business and is developing a strategy to support its clients, who will also be affected by this legislation. The Group has also discussed the potential impact of "Brexit" with a number of key clients who have been directly affected, to ensure our services are relevant in the future economic environment.

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

Strategic report *(continued)*

Principal risks and uncertainties *(continued)*

Reliance on key personnel and management

The success of the Group is dependent on the services of key management and operating personnel. The Directors believe that the Group's future success will be largely dependent on its ability to retain and attract highly skilled and qualified personnel and to expand, train and manage its employee base. During the year, the Group has strengthened its senior management team through external recruitment and internal promotion, rolled out a new employee learning and training solution across the Group and has implemented a new apprenticeship scheme. The Group has introduced a number of employee benefits and a core set of values to encourage employees to establish an identity with the Group and to mitigate the risk of losing skilled and qualified individuals.

Competition

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

Technology

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

Infrastructure failure

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

Strategy

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

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

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

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:

Strategic report *(continued)*

Strategy *(continued)*

- 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;
- 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; and
- Expansion through suitable acquisitions to enhance the business.

Our acquisition criteria are strict and mean that we would only consider buying a business which is similar to our own, would increase earnings, have high recurring revenues, have synergies available and would not over-leverage the Group.

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 is 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

Julian Phipps
Company Secretary

6 April 2017

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 2016.

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.

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

Review of the year and future developments

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

Dividends

The Company did not pay a dividend during the year ended 31 December 2016 (2015: £nil). The Directors do not recommend the payment of a dividend at 31 December 2016 (2015: £nil).

Directors

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

Jonathan Watts	Appointed 21 January 2016
Andy Ross	Appointed 21 January 2016
Julian Phipps	Appointed 21 January 2016
Bill Dobbie	
Katherine Ward	Appointed 21 January 2016
Mathew Hawkins	Appointed 15 February 2016; resigned 8 September 2016
Simon Mewett	Appointed 15 February 2016; resigned 8 September 2016
Niall Stirling	Resigned 21 January 2016
Max Royde	Resigned 21 January 2016

Company Secretary

Julian Phipps	Appointed 21 January 2016
Niall Stirling	Resigned 21 January 2016

Details of the Directors and Company Secretary of the Company in office at the date of this report, and each officer's qualifications, experience and special responsibilities are set out on pages 6 and 7.

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

The interests of the Directors at the end of the year in the ordinary shares of the Company at 31 December 2016, together with their interests at 31 December 2015 were as follows:

	Number of ordinary shares	
	31 December 2016	31 December 2015
Bill Dobbie	**14,676,053**	14,676,053
Max Royde[1]	-	15,235,000
Jonathan Watts	**83,330**	-
Katherine Ward	**16,666**	-
Niall Stirling	-	7,588

1. The ordinary shares are held by Kestrel Partners LLP, of which, Max Royde, a former Director of the Company, is Chief Executive Officer.

Directors' report *(continued)*

Directors *(continued)*

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.

Bill Dobbie and Julian Phipps 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.

Staff policy

The Group's employment policies are designed to ensure that they meet the statutory, social and market practices in the United Kingdom where the Group operates. 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. If members of staff become disabled, the Group continues employment, either in the same or an alternative position, with appropriate retraining being given, if necessary.

Political donations

The Group and Company have not made any political donations in the year ended 31 December 2016 (2015: nil).

Auditors

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

Financial risk management objectives and policy

The Company's financial risk management objectives and policies are described in note 24 to the financial statements.

Disclosure of information to the auditors

The Directors, who were members of the Board at the time of approving the Directors' Report as listed on page 18. Having made enquiries of the fellow Directors, each of the Directors confirms that:

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

Subsequent events

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.

Directors' report *(continued)*

Future developments

Future developments and current trading and prospects are set out in the Chairman's Statement, the Chief Executive Officer's review and the Financial Reviews.

On behalf of the Board

Julian Phipps
Director

6 April 2017

24 Dublin Street
Edinburgh
EH1 3PP

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

Julian Phipps
Director
On behalf of the Board

6 April 2017

Independent auditors' report to the members of CORETX Holdings plc

Report on the financial statements

Our opinion

In our opinion:

- CORETX Holdings plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2016 and of the Group's loss and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Statements of Financial Position as at 31 December 2016;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Statements of Cash Flows for the year then ended;
- the Statements of Changes in Equity for the year then ended; and
- the Notes to the Consolidated Financial Statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

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

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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.

In addition, in light of the knowledge and understanding of the Group, the Company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Independent auditors' report to the members of CORETX Holdings plc *(continued)*

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 21, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

Independent auditors' report to the members of CORETX Holdings plc *(continued)*

Responsibilities for the financial statements and the audit *(continued)*

What an audit of financial statements involves *(continued)*

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Darryl Phillips

Darryl Phillips (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

6 April 2017

Consolidated Income Statement
for the year ended 31 December 2016

	Note	**Year ended 31 December 2016 £000**	Year ended 31 December 2015 £000
Continuing operations			
Revenue		**43,422**	-
Cost of sales	*3*	**(25,580)**	-
Gross profit		**17,842**	-
Administrative expenses	*3*	**(21,638)**	(1,273)
Adjusted EBITDA*		**4,902**	(513)
Exceptional items	*5*	**(2,950)**	(760)
Depreciation	*12*	**(2,461)**	-
Amortisation	*13*	**(3,079)**	-
Loss on disposal of fixed assets		**(117)**	-
Charges for share-based payments	*27*	**(91)**	-
Operating loss		**(3,796)**	(1,273)
Finance income	*8*	**7**	659
Finance costs	*8*	**(308)**	-
Loss on ordinary activities before taxation		**(4,097)**	(614)
Income tax	*10*	**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

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 notes on pages 32 to 61 are an integral part of these financial statements.

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

The notes on pages 32 to 61 are an integral part of these financial statements.

Statements of Financial Position

As at 31 December 2016

	Note	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Non-current assets					
Property, plant and equipment	*12*	**13,677**	-	-	-
Intangible assets	*13*	**60,301**	-	-	-
Investments	*14*	-	-	**7,877**	-
Financial assets	*15*	**85**	74	-	-
		74,063	74	**7,877**	-
Current assets					
Trade and other receivables	*16*	**8,918**	80	**53,387**	194
Cash and cash equivalents	*17*	**1,132**	22,769	**422**	22,741
		10,050	22,849	**53,809**	22,935
Total assets		**84,113**	22,923	**61,686**	22,935
Current liabilities					
Trade and other payables	*18*	**9,036**	1,146	**1,287**	2,277
Deferred income	*19*	**5,663**	-	-	-
Borrowings	*22*	**764**	-	-	-
Provisions	*21*	**2,323**	438	**275**	320
Tax payable	*10*	**9**	290	-	274
		17,795	1,874	**1,562**	2,871
Non-current liabilities					
Borrowings	*22*	**5,733**	-	**5,411**	-
Provisions	*21*	**666**	-	-	-
Deferred tax liabilities	*10*	**6,503**	-	-	-
		12,902	-	**5,411**	-
Total liabilities		**30,697**	1,874	**6,973**	2,871
Net assets		**53,416**	21,049	**54,713**	20,064
Equity attributable to equity holders of the parent					
Share capital	*26*	**4,773**	1,780	**4,773**	1,780
Share premium		**32,684**	-	**32,684**	-
Retained earnings		**16,089**	19,437	**17,256**	18,284
Foreign currency translation reserve		**(130)**	(168)	-	-
Total equity		**53,416**	21,049	**54,713**	20,064

The notes on pages 32 to 61 are an integral part of these financial statements. These financial statements were approved by the Board of Directors on 6 April 2017 and were signed on its behalf by:

Julian Phipps
Director
Company registered number: SC368538

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

Group	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**

Statements of Changes in Equity *(continued)*
for the year ended 31 December 2016

Company	Share capital	Share premium	Capital redemption reserve	Retained earnings	Merger reserve	Total equity
	£000	£000	£000	£000	£000	£000
Balance at 1 January 2015	1,780	18,025	347	(6,080)	(1,261)	12,811
Total comprehensive income for the year						
Profit for the year	-	-	-	7,253	-	7,253
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**	**-**	**-**	**18,284**	**-**	**20,064**
Total comprehensive loss for the year						
Loss for the year	-	-	-	(1,119)	-	(1,119)
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**	**-**	**17,256**	**-**	**54,713**

Statements of Cash Flows
for the year ended 31 December 2016

Group

	Note	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	*6*	**(34,233)**	-
Acquisition of C4L, net of cash acquired	*6*	**(14,291)**	-
Acquisition of property, plant and equipment	*12*	**(2,601)**	-
Acquisition of other intangible assets	*13*	**(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	*17*	**1,132**	22,769

Statements of Cash Flows
for the year ended 31 December 2016

Company

	Note	2016 £000	2015 £000
Cash flows from operating activities			
(Loss)/profit for the year		**(1,119)**	7,253
Adjustments for:			
Net financial expenses/(income)		**128**	(659)
Impairment of investments in subsidiaries		**-**	1,108
Taxation		**(59)**	297
Share based payments		**91**	-
Gain on disposal of fixed assets		**-**	(22)
		(959)	7,977
Decrease in trade and other receivables		**11**	222
Decrease in trade and other payables		**(969)**	(455)
Decrease in provisions		**(45)**	(2,350)
		(1,962)	5,394
Tax (paid)/received		**(215)**	697
Net cash from operating activities		**(2,177)**	6,091
Cash flows from investing activities			
Acquisition of Selection		**(7,471)**	-
Proceeds from sale of discontinued operations		**-**	3,169
Proceeds from sale of fixed assets		**-**	22
Net cash (used in)/generated from investing activities		**(7,471)**	3,191
Cash flows from financing activities			
Interest received		**7**	659
Interest paid		**(124)**	-
Share issue, net of expenses		**29,308**	-
New loans and borrowings, net of expenses		**5,392**	-
Loan advances to subsidiary undertakings		**(47,254)**	(7,732)
Loan repayments from subsidiary undertakings		**-**	8,569
Net cash (used in)/generated from financing activities		**(12,671)**	1,496
Net (decrease)/increase in cash and cash equivalents		**(22,319)**	10,778
Cash and cash equivalents at 1 January		**22,741**	11,963
Cash and cash equivalents at 31 December	*17*	**422**	22,741

Notes to the Consolidated Financial Statements

1 Accounting policies - Group

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.

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

1.1 Basis of preparation

The consolidated financial statements of 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 note 1.29 in the accounting policies.

The financial statements have been prepared on a going concern basis. The Directors have prepared cash flow forecasts for the Group 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.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies – Group *(continued)*

1.2 Basis of Consolidation *(continued)*

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.

1.3 Intangible assets

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

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

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

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

Other intangible assets
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 includes networks and customer contracts. They are amortised over their estimate useful lives on a straight-line basis as follows:

• Customer contracts and related relationships	5 – 13 years
• Trademarks	5 years
• Technology	5 years

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

1.4 Property, plant and equipment

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

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	5 years or over lease term if shorter
• Computer software	5 years
• Network infrastructure	10 years
• Equipment, fixtures and fittings	3 – 5 years

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

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies – Group *(continued)*

1.5 Impairment of Assets

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

Other intangible assets and property, plant and equipment are subject to amortisation and depreciation and are reviewed for impairment whenever events or changes in circumstances indicate the carrying values may not be recoverable. In addition, the carrying value of capitalised development expenditure is reviewed annually for impairment. 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 that were impaired in previous periods are reviewed annually to assess whether the impairment is still relevant.

1.6 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.

1.7 Leases

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

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

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

1.8 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;

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies – Group *(continued)*

1.8 Current and deferred income tax *(continued)*

- 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.

1.9 Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original value and recoverable amounts. Provision is made where there is evidence that the balances will not be recovered in full. Significant financial difficulties of the debtor, probably that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows.

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

1.10 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.

1.11 Foreign currencies

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

Foreign exchange translation differences relating to equity accounted investments are classified as other comprehensive income.

1.12 Trade payables

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

1.13 Accruals and deferred income

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

1.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies – Group *(continued)*

1.15 Pensions

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

1.16 Share-based payment transactions

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

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

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

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the existing charge is recognised immediately. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of the cancellation and any expense not yet recognised for the award is recognised immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

1.17 Accrual for employee benefits, including holiday pay

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

1.18 Financial assets

The Group classifies its financial assets as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'cash and cash equivalents' and other receivables which are expected to be settled in cash.

1.19 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the dates a derivative contract is entered into and are subsequently re-measured at their fair value. Any gains or losses arising from changes in the fair value of derivatives are taken to the income statement through finance costs.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies – Group *(continued)*

1.20 Interest-bearing loans and borrowings

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

1.21 Finance costs

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

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

1.22 Revenue

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

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

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. The costs incurred for these revenue streams typically match the revenue pattern. Deferred income is recognised when billing occurs ahead of revenue recognition. Accrued revenue is recognised when the revenue recognition criteria were met but in accordance with the underlying contract, the sales invoice has not been issued yet.

Project revenue
These project services include mainly installation and consultancy services. Revenue from these services are recognised in accordance with the underlying contracts. Customer acceptance of milestones is often required for the recognition of installation and consultancy services revenue. The costs incurred for this revenue stream generally match the revenue pattern, however a significant portion of consultancy costs relate to staff costs, which are recognised as incurred. Installations are typically completed in a very short period of time and the revenue is recognised on completion and/or customer acceptance. Consultancy services are generally provided on a time and material basis.

1.23 Finance income

Finance income is recognised on an accruals basis, using the effective interest method.

1.24 Exceptional items

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

1.25 Operating profit or loss

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

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies – Group *(continued)*

1.26 Segmental reporting

The Chief Operating Decision Maker has been identified as the Chief Executive Officer and the Chief Financial Officer. The Chief Operating Decision Maker reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments, based on adjusted EBITDA.

The Board assess the performance of the operating segments based on adjusted EBITDA. Information provided to the Executive Board is measured in a manner consistent with that in the Financial Statements.

1.27 Discontinued operations

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

1.28 Application of new IFRSs and interpretations

There were no significant new financial reporting standards adopted in the year ended 31 December 2016. The following standards and interpretations, which are not yet effective and not yet endorsed by the EU and have not been adopted early by the Group, will be adopted in future accounting periods:

- International Financial Reporting Standard (IFRS) 15 "Revenue from contracts with customers" (effective 1 January 2018);
- International Financial Reporting Standard (IFRS) 9 "Financial instruments" (effective 1 January 2018); and
- International Financial Reporting Standard (IFRS) 16 "Leases" (effective 1 January 2019).

At this point in time, management are performing a review of the impact of the new financial reporting standards and currently do not have sufficient information to form a view of the impact of the Group.

1.29 Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

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

Estimated impairment of goodwill and intangible assets
The Group tests annually whether goodwill and any non-amortised intangible assets have suffered any impairment, in accordance with the accounting policy stated in 1.5 above. The value-in-use calculations contain a number of significant judgements including future sales, margins and appropriate discount rates. See note 13 in the financial statements for an analysis of goodwill and CGUs.

Classification of exceptional costs
The Directors have exercised judgement when classifying certain costs as integration and strategic costs. The Directors believe that these costs are all related to the types of costs described in 1.24 above and are appropriately clarified.

Notes to the Consolidated Financial Statements *(continued)*

1 Accounting policies – Group *(continued)*

1.29 Critical accounting estimates and assumptions *(continued)*

Estimation of provisions
As with any listed group, a number of provisions exist at the year end. By their nature, these provisions are judgmental. The Directors have considered the range of possible outcomes and have made provision on the basis of these outcomes. See note 21 "Provisions" in the financial statements.

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 £000	Cloud Hosting £000	Networks £000	Projects £000	Central £000	Total £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.

Notes to the Consolidated Financial Statements *(continued)*

3 Expenses by nature

	2016 £000	2015 £000
Continuing operations		
Direct staff costs	**6,622**	-
Other cost of sales	**18,958**	-
Employee costs within administrative expenses	**9,430**	575
Amortisation of intangible assets	**3,079**	-
Depreciation	**2,461**	-
Loss on disposal of fixed assets	**117**	-
Share-based payments	**91**	-
Exceptional costs	**2,950**	760
Amounts payable under operating leases	**761**	17
Other administrative costs	**2,738**	(79)
Total cost of sales and administrative expenses	**47,207**	1,273

4 Auditors' remuneration

	2016 £000	2015 £000
Audit of these financial statements	**48**	15
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**92**	2
Tax compliance services	**23**	17
Other tax advisory services	**5**	23
Other advisory services	**53**	-
Total	**221**	57

During the year, PricewaterhouseCoopers LLP were appointed as auditors to the Group.

5 Exceptional costs

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

	2016 £000	2015 £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.

Notes to the Consolidated Financial Statements *(continued)*

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

Notes to the Consolidated Financial Statements *(continued)*

6 Business combinations (continued)

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 £000	C4L £000	Total £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.

7 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.

Notes to the Consolidated Financial Statements *(continued)*

8 Finance income and costs

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

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

9 Employee benefits expense

Staff costs for the year, including Directors, amounted to:

	2016 £000	2015 £000
Wages and salaries	14,900	619
Social security costs	1,604	96
Other pension costs	508	15
Share-based payments	91	-
	17,103	730

At 31 December 2016, the Group employed 401 staff (including Directors) (2015: 4).

The average monthly number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	2016	2015
Operations	318	-
Sales and Marketing	42	2
Administration	49	2
Directors	5	3
Total average monthly headcount	414	7

Notes to the Consolidated Financial Statements *(continued)*

9 Employee benefits expense *(continued)*

The remuneration of key management personnel who comprise the Directors of the Company was as follows:

	Salary/fees £	Redundancy £	Benefits £	Bonus £	Pension £	**2016 total £**	2015 total £
Executive							
Andy Ross[1]	193,052	-	-	-	-	**193,052**	-
Julian Phipps	133,718	-	6,686	68,636	7,655	**216,695**	-
Mathew Hawkins	75,517	-	3,941	-	372	**79,830**	-
Simon Mewett	75,517	73,500	3,975	-	433	**153,425**	-
Niall Stirling	16,827	73,750	927	43,750	841	**136,095**	258,109
Phil Gripton	-	-	-	-	-	-	214,052
Non-Executive							
Jonathan Watts	47,180	-	1,425	-	-	**48,605**	-
Bill Dobbie	30,000	-	-	-	-	**30,000**	21,250
Katherine Ward	33,026	-	-	-	-	**33,026**	-
Max Royde	1,731	-	-	-	-	**1,731**	27,500
George Elliott	-	-	-	-	-	-	21,667
Total	**606,568**	**147,250**	**16,954**	**112,386**	**9,301**	**892,459**	**542,578**

1. Directors emoluments to Andy Ross are paid as follows:
   a. An annual salary of £30,000, paid monthly from CORETX Manage Limited, a Group subsidiary company; and
   b. An annual fee of £174,000, paid monthly to MXC Advisory Limited, a subsidiary company of MXC Capital Limited, which is a related party. Further details are provided in note 29.

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

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. Pension contributions are made to a defined contribution scheme.

None of the Directors made any gains on the exercise of share options in 2016 or 2015.

On 16 March 2016, options were awarded as follows:

400 A Ordinary Shares of 0.001 pence in CORETX Limited, a subsidiary company, to Andy Ross under an approved Employee Share Scheme; and

200 A Ordinary Shares of 0.001 pence in CORETX Limited, a subsidiary company, to Julian Phipps under an approved Employee Share Scheme.

The value of the A Ordinary Shares in CORETX Limited is dependent on the average share price of CORETX Holdings plc over a five-day consecutive period between 21 January 2016 and 21 January 2019. If the average share price reaches or exceeds 42 pence in a five-day consecutive period between 21 January 2016 and 21 January 2019, the holders of the A Ordinary Shares can sell their shares to CORETX Holdings plc at any time from 21 January 2019 to 21 January 2023. The holders of the A Ordinary Shares will be entitled to share in a pool of up to 5 percent of the total shareholder value created in the Group from 21 January 2016 to the date of sale, adjusted for any Ordinary Share issued by the Company during that period. If the average share price does not reach 42p in a five-day consecutive period between 21 January 2016 and 21 January 2019, then the period in which the target can be met is extended until the earlier of the target being met and 21 January 2021. The awards are exercisable at nil cost. Andy Ross is entitled to 2% of the total shareholder value created with Julian Phipps entitled to 1% of the total shareholder value created.

On 4 May 2016, options were awarded as follows:

100 B Ordinary Shares of 0.001 pence in CORETX Limited, a subsidiary company, to Jonathan Watts under Hurdle Shares.

Notes to the Consolidated Financial Statements *(continued)*

9 Employee benefits expense *(continued)*

The 100 B Ordinary Shares granted rights over 666,666 options of 2.5 pence Ordinary Shares in the Company to Jonathan Watts. The options can be exercised after 21 January 2019 for a period of a further two years, subject to share performance criteria based on the growth in the market capitalisation of the Company, taking into account dividends and capital returns, if any. The options have an exercise price of 30 pence per Ordinary Share.

Equity share based payments in respect of Directors amounted to £56,692 in the year to 31 December 2016 (2015: £nil), with equity share based payments in respect of other employees amounting to £34,373 in the year to 31 December 2016 (2015: £nil).

10 Taxation

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

	2016 £000	2015 £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 £000	2015 £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

Notes to the Consolidated Financial Statements *(continued)*

10 Taxation *(continued)*

(b) Deferred tax liability

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

11 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 £000	2015 £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

Notes to the Consolidated Financial Statements *(continued)*

11 Earnings per share *(continued)*

	2016 Number	2015 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

	2016	2015
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

12 Property, plant and equipment

Group

	Leasehold property £000	**Computer software £000**	**Network infrastructure £000**	**Equipment, fixtures and fittings £000**	**Total £000**
Cost					
At 1 January 2015 and at 31 December 2015	-	-	-	-	-
Business combinations	33	212	11,894	1,515	13,654
Additions	6	860	537	1,198	2,601
Disposals	-	(39)	(15)	(109)	(163)
At 31 December 2016	**39**	**1,033**	**12,416**	**2,604**	**16,092**
Accumulated depreciation					
At 1 January 2015 and at 31 December 2015	-	-	-	-	-
Charge for the year	8	228	1,255	970	2,461
Disposals	-	(4)	(2)	(40)	(46)
At 31 December 2016	**8**	**224**	**1,253**	**930**	**2,415**
Net carrying amount					
31 December 2016	**31**	**809**	**11,163**	**1,674**	**13,677**
31 December 2015	-	-	-	-	-

As at 31 December 2016, included within network infrastructure and equipment, fixtures and fittings are assets held under finance leases with a carrying value of £1,675,403 (2015: £nil) and £512,066 (2015: £nil), respectively. Of the fixed assets acquired in the year, £299,571 were funded using finance leases (2015: £nil).

The depreciation charge for the year of £2,460,866 (2015: £nil) relates to continuing operations and has been charged to administrative expenses.

Company

The Company has no fixed assets at 1 January 2015, 31 December 2015 and at 31 December 2016.

Notes to the Consolidated Financial Statements *(continued)*

13 Intangible assets

Group

	Goodwill £000	Trademarks £000	Customer contracts and related relationships £000	Technology £000	Total £000
Cost					
At 1 January 2015 and at 31 December 2015	-	-	-	-	-
Business combinations	32,256	1,707	29,076	336	63,375
Additions	-	-	-	5	5
At 31 December 2016	**32,256**	**1,707**	**29,076**	**341**	**63,380**
Amortisation					
At 1 January 2015 and at 31 December 2015	-	-	-	-	-
Charge for the year	-	(299)	(2,716)	(64)	(3,079)
At 31 December 2016	**-**	**(299)**	**(2,716)**	**(64)**	**(3,079)**
Net carrying amount					
31 December 2016	**32,256**	**1,408**	**26,360**	**277**	**60,301**
31 December 2015	-	-	-	-	-

The amortisation charge in the year 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 during the year.

The recoverable amount of all cash generating units ("CGU") has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by the Board of Directors until 31 December 2017 and extrapolated for a further four years by growth rates applicable to the CGU. A terminal value based on a perpetuity calculation using 2% real growth was then added.

The Group has conducted a sensitivity analysis on the impairment of each CGUs carrying value. Whilst the excess of the higher of fair value and value in use, and the carrying value of a CGU "headroom" varies for CGUs, the CGU with the least relative headroom relates to the C4L acquisition. There is a possible chance that changes to key assumptions, including sales growth and margins, could result in an impairment, however any expected change would result in operational changes to the business which would mitigate any potential impairment charge.

Notes to the Consolidated Financial Statements *(continued)*

13 Intangible assets *(continued)*

Company

The Company has no intangible assets at 1 January 2015, 31 December 2015 and at 31 December 2016.

14 Investments

Company

	£000
At 1 January 2015	1,108
Impairment of investment in subsidiary companies	(1,108)
At 31 December 2015	-
Acquisition of subsidiary undertaking	7,877
At 31 December 2016	**7,877**

On 21 January 2016, the Company acquired 100% of the issued share capital of CORETX Limited (formerly Selection Services Investments Limited). The Directors annually review the carrying value of the Company's investments for impairment. Following this review, the Directors believe that the carrying value of the investments is supported by their underlying net assets and cash flows.

The Company has the following investments in subsidiaries:

	Country of Incorporation	Class of shares held	Ownership 2016	2015
Held directly by CORETX Holdings plc				
CORETX Limited (formerly Selection Services Investments Limited)	England[1]	Ordinary	**100%**	-
Connexions4London Limited (formerly Global Digital Corporation Limited)	Scotland[2]	Ordinary	**100%**	100%
Selection Services Investments Limited (formerly Cupid Labs Limited)	Scotland[2]	Ordinary	**100%**	100%
Aggregated Telecom Limited (formerly Frindr Limited)	England[3]	Ordinary	**100%**	100%
Selection Services Limited (formerly Tangle Labs Limited)	England[3]	Ordinary	**100%**	100%
Castle Digital Services Inc.	USA[4]	Ordinary	**100%**	100%
Cupid.com Inc.	USA[4]	Ordinary	**100%**	100%
Assistance Genie Logiciel	France[5]	Ordinary	**100%**	100%
Hooya Digital Limited	Cyprus[6]	Ordinary	**100%**	100%
Held indirectly by CORETX Holdings plc				
CORETX Financing Limited (formerly Selection Services Financing Limited)	England[1]	Ordinary	**100%**	-
CORETX Manage Limited (formerly Selection Services Limited)	England[1]	Ordinary	**100%**	-
CORETX Protect Limited (formerly Aggregated Telecom Limited)	England[1]	Ordinary	**100%**	-
CORETX Subholdings Limited (formerly C4L Group Holdings Limited)	England[1]	Ordinary	**100%**	-
CORETX Connect Limited (formerly Connexions4London Limited)	England[1]	Ordinary	**100%**	-
CORETX Communications Limited (formerly Orbis Telecom Limited)	England[1]	Ordinary	**100%**	-
Selection Services EBT Trustee Limited	England[1]	Ordinary	**100%**	-
8EL Leasing Limited	England[1]	Ordinary	**100%**	-

Notes to the Consolidated Financial Statements *(continued)*

14 Investments in subsidiaries – Company *(continued)*

1 Registered office is located at Rutland House, 44 Masons Hill, Bromley BR2 9JG
2 Registered office is located at 24 Dublin Street, Edinburgh EH1 3PP
3 Registered office is located at Interchange Building, Wellesley Road, Croydon CR0 2RD
4 Registered office is located at 2711 Centerville Road, Suite 400, New Castle, Wilmington, Delaware 19808, U.S.A.
5 Registered office is located at 39 Rue Royale, 92201 Saint-Cloud, France
6 Registered office is located at Faneromenis 115, Antouanettas Building, 6031 Larnaca, Cyprus

At 31 December 2016, the trading subsidiaries of the Company are CORETX Manage Limited (formerly Selection Services Limited), CORETX Protect Limited (formerly Aggregated Telecom Limited), CORETX Connect Limited (formerly Connexions4London Limited) and CORETX Communications Limited (formerly Orbis Telecom Limited). All of the remaining subsidiaries are non-trading.

All of the subsidiary companies in ownership at 31 December 2015 were non-trading. As a result, the carrying value of investments in subsidiary companies were written down to nil at 31 December 2015.

15 Financial assets

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Rent deposit	**85**	74	-	-

Financial assets consist of a rent deposit held in Cyprus.

16 Trade and other receivables

	Group		Company	
Current	**2016**	2015	**2016**	2015
	£000	£000	**£000**	£000
Trade receivables	**6,999**	-	-	-
Less provision for impairment of trade receivables	**(415)**	-	-	-
Trade receivables – net	**6,584**	-	-	-
Amounts due from subsidiary undertakings	-	-	**53,378**	140
Prepayments and other debtors	**2,334**	80	**9**	54
	8,918	80	**53,387**	194

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:

Notes to the Consolidated Financial Statements *(continued)*

16 Trade and other receivables *(continued)*

	Group		Company	
Days outstanding	**2016 £000**	2015 £000	**2016 £000**	2015 £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:

	Group		Company	
	2016 £000	2015 £000	**2016 £000**	2015 £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.

17 Cash and cash equivalents

	Group		Company	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Cash and cash equivalents	**1,132**	22,769	**422**	22,741

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

	Group		Company	
Credit rating	**2016 £000**	2015 £000	**2016 £000**	2015 £000
A	**1,132**	22,769	**422**	22,741

Notes to the Consolidated Financial Statements *(continued)*

18 Trade and other payables

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Current				
Trade payables	**5,715**	40	**63**	12
Amounts due to subsidiary undertakings	**-**	-	**1,182**	1,162
Other payables	**144**	-	**-**	-
Taxation and social security	**1,254**	-	**5**	14
Accruals	**1,923**	1,106	**37**	1,089
	9,036	1,146	**1,287**	2,277

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

19 Deferred income

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Deferred income	**5,663**	-	**-**	-

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 as at 31 December 2016 are as follows:

Group	**Land and Buildings 2016 £000**	**Other 2016 £000**	Land and Buildings 2015 £000	Other 2015 £000
Not later than one year	**883**	**357**	17	-
After one year but not more than five years	**2,944**	**487**	-	-
After five years	**122**	**-**	-	-
	3,949	**844**	17	-

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

Company	**Land and Buildings 2016 £000**	Land and Buildings 2015 £000
Not later than one year	**-**	2

Notes to the Consolidated Financial Statements *(continued)*

20 Commitments and contingencies *(continued)*

b) Capital commitments

The Group had no contracted but not provided for capital commitments at 31 December 2016 (2015: £nil).

c) Contingent liabilities

The Group's subsidiaries and the Company are currently, and may be from time to time, involved in a number of legal proceedings. Whilst the outcome of current outstanding actions and claims remains uncertain, it is expected that they will be resolved without a material impact on the Group and the Company's financial position.

Prior to ownership by CORETX, some personal tax planning was carried out by Selection. We do not believe that payments are probable but they are possible. Any amounts are fully indemnified by other parties.

21 Provisions

Tax planning provision

The tax planning arrangements relate to two tax schemes entered into by CORETX Manage Limited (previously Selection Services Limited) on behalf of ex-directors in a previous accounting year prior to the Company acquiring CORETX Limited. The provision has been estimated on the basis of determinations issued by HMRC on both schemes, one of which has been agreed by the ex-directors except for interest and penalties. One ex-director has provided an indemnity for their share of the provision, of which £174,133 is shown within other debtors due within one year.

Property provision

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

Other provisions

Other provisions primarily relate to committed costs on various supplier contracts across hosting, connectivity, hardware and software services.

Group	**Tax planning provision £000**	**Property provision £000**	**Other provision £000**	**Total £000**
Balance at 1 January 2016	-	53	385	438
Acquired	672	773	2,535	3,980
Charged to income statement	-	6	-	6
Utilised	(426)	(193)	(813)	(1,432)
Released	-	-	(3)	(3)
Balance at 31 December 2016	246	639	2,104	2,989
Non-current				666
Current				2,323

Notes to the Consolidated Financial Statements *(continued)*

21 Provisions *(continued)*

Company	Other provision £000	Total £000
Balance at 1 January 2016	320	320
Utilised	(42)	(42)
Released	(3)	(3)
Balance at 31 December 2016	275	275
Non-current		-
Current		275

22 Borrowings

	Group		Company	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Non-current				
Bank loan	**5,500**	-	**5,500**	-
Unamortised loan arrangement fee	**(89)**	-	**(89)**	-
Finance leases	**322**	-	**-**	-
	5,733	-	**5,411**	-

	Group		Company	
	2016 £000	2015 £000	**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:

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

Notes to the Consolidated Financial Statements *(continued)*

22 Borrowings *(continued)*

The present value of finance lease liabilities is as follows

Group	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

Company	Carrying value 2016 £000	Fair Value 2016 £000	Carrying Value 2015 £000	Fair Value 2015 £000
Non-current				
Bank loan	5,500	4,995	-	-

The Company has no finance leases at 31 December 2016 or at 31 December 2015.

23 Financial instruments by category

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

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

Group

Assets – loans and receivables	2016 £000	2015 £000
Non-current financial assets	85	74
Trade receivables	6,584	-
Prepayments and other debtors	2,335	80
Cash and cash equivalents	1,132	22,769
Total	10,136	22,923

Company

Assets – loans and receivables	2016 £000	2015 £000
Prepayments and other debtors	9	54
Cash and cash equivalents	422	22,741
Total	431	22,795

The carrying amount of these assets is equivalent to their fair value. At 31 December 2016, trade receivables are reported net of bad debt provision of £0.4m (2015: £nil) for impairment, with trade receivables of £0.7 million (2015: £nil) past due but not impaired. None of these remaining assets are impaired.

Notes to the Consolidated Financial Statements *(continued)*

23 Financial instruments by category *(continued)*

Group

Liabilities	2016 £000	2015 £000
Trade payables	**5,715**	40
Other payables excluding statutory liabilities	**2,067**	1,106
Bank loan	**5,500**	-
Finance leases	**1,086**	-
Total	**14,368**	1,146

Company

Liabilities	2016 £000	2015 £000
Trade payables	**63**	12
Other payables excluding statutory liabilities	**42**	1,089
Bank loan	**5,500**	-
Total	**5,605**	1,101

The carrying amount of these liabilities is equivalent to their fair value, except for bank loans and finance leases; see note 22 to the financial statements.

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

Level 1: quoted (adjusted) prices in active markets for identical assets and liabilities;

Level 2: not traded in an active market, but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

At 31 December 2016, the Group and Company's financial instruments held at fair value were level 2 instruments. The Group has not entered into any derivative financial instruments in the current or preceding period.

24 Financial risk management

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

Risk management is carried out centrally under policies approved by the Board of Directors. Management identifies, evaluates and hedges financial risks. The Board of Directors provide 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.

Notes to the Consolidated Financial Statements *(continued)*

24 Financial risk management *(continued)*

Market risk

Foreign exchange risk
The Group mainly operates within the United Kingdom and foreign exchange risk arise from certain transactions with counterparties denominated in foreign currencies. This is not a significant risk for the Group.

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

Borrowings at variable rates expose the Group to cash flow interest rate risk. During the year ended 31 December 2016, the Group's borrowings at variable rate were denominated in Pounds Sterling with interest linked to Sterling interest rates.

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. As at 31 December 2016, trade receivables of £0.4 million (2015: £nil) were impaired and fully provided. As at 31 December 2016, trade receivables of £0.7 million (2015: £nil) were past due but not impaired.

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 2016	**£000**	**£000**	**£000**	**£000**
Trade and other payables	**7,782**	**-**	**-**	**7,782**
Finance leases	**764**	**151**	**171**	**1,086**
Bank loan	**-**	**-**	**5,500**	**5,500**
	8,546	**151**	**5,671**	**14,368**

Group			More than	
	Within 1 year	1-2 years	2 years	Total
At 31 December 2015	£000	£000	£000	£000
Trade and other payables	1,146	-	-	1,146
	1,146	-	-	1,146

Notes to the Consolidated Financial Statements *(continued)*

24 Financial risk management *(continued)*

Company **At 31 December 2016**	**Within 1 year** **£000**	**1-2 years** **£000**	**More than 2 years** **£000**	**Total** **£000**
Trade and other payables	**1,282**	**-**	**-**	**1,282**
Bank loan	**-**	**-**	**5,500**	**5,500**
	1,282	**-**	**5,500**	**6,782**

Company At 31 December 2015	Within 1 year £000	1-2 years £000	More than 2 years £000	Total £000
Trade and other payables	2,263	-	-	2,263
	2,263	-	-	2,263

25 Capital risk management

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

In order to maintain or adjust the capital structure, the Group has previously both issued new shares and borrowed using bank facilities. The Group monitors capital on the basis of the ratio of net bank debt to adjusted EBITDA. Net debt is calculated as total bank borrowings (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, exceptional items, (loss)/gain on disposal of fixed assets and share-based payments. The Group's strategy is to maintain the ongoing ratio at below 2.0x, although the bank facilities can accommodate a higher ratio. The ratio was comfortably below this level throughout the year and at 31 December 2016, was 1.04x.

The bank facilities referred to in note 22 contains various covenants in relating to EBITDA, interest cover, net debt and cash flow, which the Group monitors on a monthly basis. The Group adopts a risk-adverse position with respect to borrowings and maintains a significant amount of headroom in its bank facilities to ensure that any unexpected situations do not create financial stress.

The Group has not proposed a dividend for the current and prior year and as a result, is retaining capital in the business to fund potential future acquisitions and to provide operational flexibility. The Group has also granted options and Employee Share Scheme awards to certain Directors and key employees. However, these do not have a significant impact on the Group's capital structure.

26 Called up share capital – Group and Company

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

Notes to the Consolidated Financial Statements *(continued)*

26 Called up share capital *(continued)*

	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.

27 Share-based payment plans

The share-based payment credit comprises:

	2016	2015
	£000	£000
Equity-settled share-based charges arising from ESS options	**86**	-
Equity-settled share-based charges arising from hurdle share options	**5**	-
Total	**91**	-

During the year, the Group introduced an Employee Share Scheme ('ESS'), granted Hurdle Shares to the Chairman and granted evergreen warrants to MXC Capital Limited. Grants have been made in the year as follows:

Notes to the Consolidated Financial Statements *(continued)*

27 Share-based payment plans *(continued)*

	MXC warrants Number of options	ESS number of options	Hurdle shares number of options	Total number of options
21 January 2016	8,627,790	-	-	8,627,790
15 February 2016	917,346	-	-	917,346
16 March 2016	-	3,017,083	-	3,017,083
4 May 2016	-	-	666,666	666,666
Total options granted	9,545,136	3,017,083	666,666	13,228,885

On 21 January 2016, in consideration of MXC Capital Limited's agreement to subscribe in the Placing, MXC Capital Limited was granted evergreen warrants over 5 percent of the Enlarged Issued Share Capital of the Company as at the date of the Company's readmission to trading on AIM at 30 pence per share, subject to adjustment to reflect any further equity issues, which occurred on 15 February 2016. The warrants are exercisable between the third and seventh anniversaries of date of the initial grant, provided the share price meets or exceeds 42 pence per Ordinary Share on or before the third anniversary. If the target share price is not met by the third anniversary, the target period is extended by a further two years.

On 16 March 2016, the Company made awards to certain Directors and key employees under the Company's recently established Employee Share Scheme ("ESS"). The beneficiaries of the ESS will be entitled to receive a share in a pool of up to 5 per cent of shareholder value created, subject to share price performance criteria, and need to have been employed by the Group for a minimum period of three years. Shareholder value is defined as the growth in the market capitalisation of the Company from the base value over a period of at least three years, and up to seven years, from 21 January 2016, taking dividends and capital returns into account, if any. The awards are exercisable at nil cost until the seventh anniversary from 21 January 2016. The base value is defined as the aggregate value of all the Ordinary Shares in the Company in issue at 21 January 2016 at 30 pence per Ordinary Share as adjusted for the issue of new Ordinary Shares after that date.

On 4 May, 2016, 100 B Ordinary Shares of 0.001 pence in CORETX Limited, a subsidiary company, were awarded to Jonathan Watts under Hurdle Shares. The Hurdle Shares grant rights over 666,666 options of 2.5 pence Ordinary Shares in the Company. The options can be exercised after 21 January 2019 for a period of a further two years, subject to share performance criteria based on the growth in the market capitalisation of the Company, taking into account dividends and capital returns, if any. The options have an exercise price of 30 pence per Ordinary Share.

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

	2016 Number	**2016 WAEP**	2015 Number	2015 WAEP
Opening balance	-	-	3,640,000	£0.44
Granted during the year	**13,228,885**	**£0.30**	-	-
Lapsed during the year	-	-	(3,640,000)	£0.44
Closing balance	**13,228,885**	**£0.30**	-	-

There were no options exercisable at 31 December 2016 (2015: nil). Following the sale of the Group's legacy business on 24 December 2014, the options lapsed on 22 June 2015, with no options being exercised in the 180 day period following the sale date.

The range of exercise prices for options outstanding at the end of the year was 30 pence (2015: nil).

Notes to the Consolidated Financial Statements *(continued)*

27 Share-based payment plans *(continued)*

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. The key inputs into the model were:

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

28 Pensions

The Group operates defined contribution pension schemes for eligible employees. The charge for the year ended 31 December 2016 relating to continuing operations is £507,860 (2015: £14,684). An amount of £43,475 is included in creditors being outstanding contributions at 31 December 2016 (2015: £1,312).

29 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 owning 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).

30 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 services and support 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.

Notes to the Consolidated Financial Statements *(continued)*

14 Investments in subsidiaries – Company *(continued)*

1 Registered office is located at Rutland House, 44 Masons Hill, Bromley BR2 9JG
2 Registered office is located at 24 Dublin Street, Edinburgh EH1 3PP
3 Registered office is located at Interchange Building, Wellesley Road, Croydon CR0 2RD
4 Registered office is located at 2711 Centerville Road, Suite 400, New Castle, Wilmington, Delaware 19808, U.S.A.
5 Registered office is located at 39 Rue Royale, 92201 Saint-Cloud, France
6 Registered office is located at Faneromenis 115, Antouanettas Building, 6031 Larnaca, Cyprus

At 31 December 2016, the trading subsidiaries of the Company are CORETX Manage Limited (formerly Selection Services Limited), CORETX Protect Limited (formerly Aggregated Telecom Limited), CORETX Connect Limited (formerly Connexions4London Limited) and CORETX Communications Limited (formerly Orbis Telecom Limited).

All of the remaining subsidiaries are non-trading.

Connexions4London Limited (formerly Global Digital Corporation Limited), Selection Services Investments Limited (formerly Cupid Labs Limited), Aggregated Telecom Limited (formerly Frindr Limited) and Selection Services Limited (formerly Tangle Labs Limited) are exempt from the requirements of the Companies Act relating to the audit of individual accounts by virtue of Section 479A.

All of the subsidiary companies in ownership at 31 December 2015 were non-trading. As a result, the carrying value of investments in subsidiary companies were written down to nil at 31 December 2015.

15 Financial assets

	Group		Company	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Rent deposit	**85**	74	-	-

Financial assets consist of a rent deposit held in Cyprus.

16 Trade and other receivables

	Group		Company	
Current	**2016**	2015	**2016**	2015
	£000	£000	**£000**	£000
Trade receivables	**6,999**	-	-	-
Less provision for impairment of trade receivables	**(415)**	-	-	-
Trade receivables – net	**6,584**	-	-	-
Amounts due from subsidiary undertakings	-	-	**53,378**	140
Prepayments and other debtors	**2,334**	80	**9**	54
	8,918	80	**53,387**	194

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:

Notes to the Consolidated Financial Statements *(continued)*

13 Intangible assets *(continued)*

Company

The Company has no intangible assets at 1 January 2015, 31 December 2015 and at 31 December 2016..

14 Investments

Company

	£000
At 1 January 2015	1,108
Impairment of investment in subsidiary companies	(1,108)
At 31 December 2015	-
Acquisition of subsidiary undertaking	7,877
At 31 December 2016	**7,877**

On 21 January 2016, the Company acquired 100% of the issued share capital of CORETX Limited (formerly Selection Services Investments Limited). The Directors annually review the carrying value of the Company's investments for impairment. Following this review, the Directors believe that the carrying value of the investments is supported by their underlying net assets and cash flows.

The Company has the following investments in subsidiaries:

	Country of Incorporation	Class of shares held	Ownership 2016	2015
Held directly by CORETX Holdings plc				
CORETX Limited (formerly Selection Services Investments Limited)	England[1]	Ordinary	**100%**	-
Connexions4London Limited (formerly Global Digital Corporation Limited)	Scotland[2]	Ordinary	**100%**	100%
Selection Services Investments Limited (formerly Cupid Labs Limited)	Scotland[2]	Ordinary	**100%**	100%
Aggregated Telecom Limited (formerly Frindr Limited)	England[3]	Ordinary	**100%**	100%
Selection Services Limited (formerly Tangle Labs Limited)	England[3]	Ordinary	**100%**	100%
Castle Digital Services Inc.	USA[4]	Ordinary	**100%**	100%
Cupid.com Inc.	USA[4]	Ordinary	**100%**	100%
Assistance Genie Logiciel	France[5]	Ordinary	**100%**	100%
Hooya Digital Limited	Cyprus[6]	Ordinary	**100%**	100%
Held indirectly by CORETX Holdings plc				
CORETX Financing Limited (formerly Selection Services Financing Limited)	England[1]	Ordinary	**100%**	-
CORETX Manage Limited (formerly Selection Services Limited)	England[1]	Ordinary	**100%**	-
CORETX Protect Limited (formerly Aggregated Telecom Limited)	England[1]	Ordinary	**100%**	-
CORETX Subholdings Limited (formerly C4L Group Holdings Limited)	England[1]	Ordinary	**100%**	-
CORETX Connect Limited (formerly Connexions4London Limited)	England[1]	Ordinary	**100%**	-
CORETX Communications Limited (formerly Orbis Telecom Limited)	England[1]	Ordinary	**100%**	-
Selection Services EBT Trustee Limited	England[1]	Ordinary	**100%**	-
8EL Leasing Limited	England[1]	Ordinary	**100%**	-