Company Registration Number 07619797

UKCloud Ltd

Financial Statements

For the year ended 31 March 2019

REPORT AND FINANCIAL STATEMENTS 2019

CONTENTS

Officers and professional advisors

Directors	J R Sanders S J Hansford S Brittan W T Ginn
Registered Office	Hartham Park Corsham Wiltshire SN13 0RP
Independent Auditors	Grant Thornton UK LLP 2 Glass Wharf Bristol BS2 0EL

Strategic Report for the year ended 31 March 2019

The directors present their Strategic Report for the year ended 31 March 2019.

Business Review and future developments

The Company's principal activity is the supply of sovereign, public, multi-cloud platforms that are dedicated for the use of the UK public sector. These have distinct characteristics of reducing technology lock-in and the costs and risk of migrating applications to the cloud, data sovereignty, higher assurance and connectivity to secure government networks.

As a key cloud supplier to government agencies and their major system integrators and ICT suppliers, UKCloud currently serves central government departments, health, defence, police and local authorities on a large number of active revenue generating cloud projects and has a leading position at the heart of a very rapidly growing UK public sector Public Cloud market. This is achieved through three distinct go-to-market brands – UKCloud Health (central health bodies such as NHS England, NHS Digital, and NHS Trusts), UKCloudX (Defence and National Security) and UKCloud (Central & Local Government, Police & Education). Each of the three brands has also developed a large vibrant partner ecosystem of System Integrators, Managed Service Providers and Independent Software Vendors that use our cloud platforms to deliver their products & services into these markets.

A £15m investment from Digital Alpha Advisors (with a commitment to a further £10m once further results are achieved), and the relationship with Cisco, has been received positively by our customers, partners, industry analysts and prospects in our pipeline, and we continue to leverage this and build a strong relationship and pipeline with the Cisco sales teams through joint propositions and account plans.

Our credible track record with UK public sector customers, government-grade security and direct government network connectivity creates a compelling proposition for our market. By developing a unique multi-cloud platform, it brings together the best public cloud technologies and traditional Enterprise technologies on a single platform hosted within its secure, government-grade UK data centre facilities. It enables resource-constrained public sector organisations a low risk way of modernising existing IT (such as VMware and Oracle), whilst also facilitating the development of modern cloud native digital solutions which require services such as Azure, Docker and Kubernetes.

Success in winning contracts has driven significant economies of scale and continuous improvements in efficiency, hence the company remains positive about our market, our positioning within it and the opportunity ahead.

Key performance indicators

Revenue decreased from £40.2m for FY18 to £37.1m in FY19 as a result of reductions in usage by a small number of customers. Operating Profit decreased from £3.2m profit for FY18 to £2.5m loss in FY19, and Profit for the Financial Year decreased from £3.2m for FY18 to £2.3m loss in FY19, both as a result of the reductions in usage by the small number of customers, as well as increasing investment in Sales, Marketing, Development and the expansion of the platform.

Business environment and strategy

As an early pioneer, UKCloud has helped scores of UK Public Sector customers prove the value of digital transformation and agile development, including the migration of workloads from existing data centres and virtualised infrastructures. These success stories have underpinned the increasing popularity and adoption of cloud computing, and have given us an unparalleled insight as to the evolving needs and wants of our customers and partners.

We have continued to deliver and remain resolutely focused on delivery of our goal to be "*the power behind public sector technology*", and our core strategy remains unchanged. We have benefitted from the growing adoption of cloud computing by an increasing number of public sector organisations and believe that adoption is still in its early stage.

The continued development of our three established, recognisable brands – UKCloud, UKCloud Health and UKCloudX –ensure we always speak the language of the buyer and demonstrate our subject-matter expertise. Increasingly we shall use these brands to build differentiated messaging and products around, but also build distinct sales and technical teams.

Strategic Report for the year ended 31 March 2019 (continued)

Business environment and strategy (continued)

We have seen the opportunity to become even more customer-centric by introducing solutions and services that complement and enhance our propositions

Core Platform – continued expansion and development of our core IaaS and PaaS multi-cloud platforms.

Tier 2 Platform - the extension of our core platform at TIER 2 (aka SECRET) classification. The TIER 2 platform is supported by a dedicated set of resources (people, processes, premises and technology) that operate specifically at this classification level.

Professional Services – to engage with customers early in the life of their digital transformation programme, we continue to develop a range of paid-for Expert Services that are designed to help customers plan and execute their journey to multi-cloud.

Priming End-to-End Solutions – continued development of a portfolio of ready-made solutions and act as the Prime Contractor to make it easy for customers to consume these 'End-to-End Solutions.

Further, the Company creates clear opportunities for its partners to specialise and provide value-added services that help customers achieve their outcomes. The UKCloud partner programme consists of more than 300 partners including leading system integrators, managed service providers and independent software vendors delivering Software-as-a-Service solutions specific to public sector communities. Along with our customers they bring together previously disconnected datasets and systems to provide a foundation for more effective collaboration and greater use of digital technologies such as machine learning and artificial intelligence - creating new insights and opportunities for the UK Public Sector and wider industry.

Strategic Report for the year ended 31 March 2019 (continued)

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the company are considered by the Directors as:

- Securing and maintaining sufficient demand to support the incumbent technology investments and on-going overhead. Key to this will be the extent and speed with which the UK Public Sector transitions from a traditional procurement approach to sourcing assured cloud solutions. We believe that the benefits of cloud computing are sufficiently compelling and procurement frameworks increasingly understood, that this trend will continue unabated and on a scale that will enable UKCloud to meet its business plan targets.

- The risk that one or more aspects of our technology platform fails to deliver to the service levels that we are committing to our customers. The company has mitigated this risk not only through the use of proven technologies from world class technology vendors, who are committed to supporting our new model of operation, but also by developing a robust management, compliance and assurance regime accredited by recognised bodies (Lloyds Registry and NCSC).

- Bidding and winning large scale contracts requires appropriate risk management in order to ensure that onerous contract terms and services, which do not fit our technology or service model and could lead to the loss of a material contract or potential contractual penalties, are avoided. Robust risk management, a formal bid review process and certified service delivery processes are in place to mitigate these risks.

- Our ability to continue to recruit and retain appropriate technical, operational, commercial and leadership talent to build UKCloud into the leading provider of assured cloud services to the UK Public Sector. UKCloud has a comprehensive recruitment and human resource management program to identify, recruit, develop, motivate and retain talent.

- The uncertainty of Brexit and the changing political landscape slows down decision-making or policy implementation.

In addition, we continuously monitor and refine our cost base against our service model to ensure that this remains aligned and optimised at all times. Our reporting processes and internal systems are managed by experienced, qualified professionals who ensure that we contract, deliver and administer each service correctly.

Approved by the Board and signed on its behalf by

William Ginn
Director
18 December 2019

Directors Report for the year ended 31 March 2019

The directors present their report and the financial statements for the year ended 31 March 2019.

Directors of the company

The directors who held office during the period were as follows:

S Brittan

W T Ginn

S J Hansford

J R Sanders

Principal activity

The principal activity of the company is the provision of assured ICT cloud computing services to the UK Public Sector exclusively from UK sovereign facilities.

Charitable donations

Charitable donations of £23,000 (2018: £7,000) were made during the period. The Company has made a clear commitment to Corporate and Social Responsibility, and sees this as a key element of the business. In terms of social responsibility, we are proud of our local and national approach through the giving of time and money as charitable donations, alongside a matched funding policy for all Company employees.

We are committed to creating initiatives to be proud of and we continue to invest in local projects in the communities where we operate our business, such as the Farnborough-based CMPP which supports local community initiatives. As well as supporting the partnership financially, the volunteer days have significantly improved facilities and our contribution has been recognised within the local community.

On a national level we continue to support activities with Princes Trust and National Trust, alongside new STEM-based opportunities being created working with the Hampshire & Isle of Wight Air Ambulance. We offer a paid charity day to each of our employees and this year many of the Company's employees used their Volunteer Day to support a UK charity of their choice.

Over the next 12 months, the Company will continue to help support the well-being of society through engagement in community and educational activities, donations, match funding for employees, individual charitable activities and the provision of volunteer days to help change peoples' lives.

Research and development

Our markets have a unique set of requirements and are rapidly evolving. UKCloud continues to invest in the use of new technology and service development to enhance the quality of its products and in order to remain competitive and respond to the changing needs of customers, the company makes significant investments in talented people and research and development. The company will continue to invest in people and emerging standards, and is working collaboratively with partners to develop new pioneering products and assured service levels.

Dividend

The directors cannot recommend a dividend.

Qualifying third party indemnity provisions

The group has provided qualifying third party indemnity provisions in respect of the board of directors which were in force during the year and at the date of this report.

Directors Report for the year ended 31 March 2019 (continued)

Going Concern

The directors have prepared cash flow forecasts for a period exceeding 12 months from the date of approval of these financial statements, and additionally the directors have applied sensitivity analysis to these forecasts. Whilst the Company has a net current liabilities position, this is primarily due to the amount funded by its parent (which has no investments other than that in the Company) being stated within Creditors: Amounts Falling Due Within One Year.

As a result of its strategy of investment in sales, marketing and development resources and in expanding the platform itself (including its new SECRET platform) the Company incurred a loss in the period and expects to continue this investment over the next 12 months. The Company's parent received an equity investment of £15m in April 2019 from Digital Alpha Advisors, which has contractually committed to provide a further equity investment of £10m when the SECRET platform supports a revenue of £625k in any 3 month-period. The company repaid its revolving credit facility with Barclays Bank in August 2019, and subsequent to the balance sheet date has taken out an unsecured debt facility with Cisco Capital totalling £5.0m as at the date of these financial statements.

The company expects that with its resources of cash, committed equity investment and expected access to debt facilities it will be able to continue its planned investment strategy over the next 12 months. Should the Company need to delay its level of investment in order to match its available working capital facilities, the business would be able to do so. The directors have a reasonable expectation that the company has sufficient resources to continue to trade for at least 12 months from the date of signing this report and have therefore adopted the going concern basis in preparing the financial statements.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Disclosure of information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Directors Report for the year ended 31 March 2019 (continued)

Independent auditors

Grant Thornton UK LLP having expressed their willingness to continue in office as auditor will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the Company receives notice under section 488(1) of the Companies Act 2006.

Approved by the Board and signed on its behalf by:

William Ginn
Director
18 December 2019

Independent auditors report to members of UKCloud Ltd

We have audited the financial statements of UKCloud Ltd (the "company") for the year ended 31 March 2019 which comprise the statement of Comprehensive income, the Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Strategic Report and Directors' Report set out on pages 4 to 9, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Independent auditors report to members of UKCloud Ltd (continued)

Matter on which we are required to report under the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Tim Lincoln BA ACA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Bristol
18 December 2019

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2019

	Note	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
TURNOVER	5	37,106	40,208
Cost of sales		(14,752)	(14,304)
GROSS PROFIT		22,353	25,904
Administrative expenses		(25,952)	(24,987)
OPERATING (LOSS)/PROFIT BEFORE SHARE BASED PAYMENT		(3,599)	917
Share Based Payment	21	1,064	2,317
OPERATING (LOSS)/PROFIT		(2,535)	3,234
Interest receivable		33	5
Interest payable and similar charges	6	(921)	(917)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	7	(3,423)	2,322
Tax on profit/loss on ordinary activities	8	1,141	882
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		(2,282)	3,204

The above results relate entirely to continuing activities. There were no recognised gains and losses for 2019 or 2018 other than those included in the statement of comprehensive income. There was no other comprehensive income for 2019 (2018: £Nil). The notes on pages 15 to 29 form part of these financial statements.

BALANCE SHEET
At 31 March 2019

	Note	2019		2018	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Intangible assets	11	1,993		2,323	
Tangible assets	10	16,516		15,610	
		18,508		17,933	
CURRENT ASSETS					
Debtors	12	10,831		8,039	
Cash at bank and in hand		473		2,262	
		11,305		10,301	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	13	(34,365)		(29,440)	
NET CURRENT LIABILITIES			(23,060)		(19,137)
NET LIABILITIES			(4,552)		(1,206)
CAPITAL AND RESERVES					
Called up share capital			1		1
Capital Contribution Reserve			6,582		7,646
Profit and loss account carried forward			(11,135)		(8,853)
SHAREHOLDERS' DEFICIT			(4,552)		(1,206)

The financial statements of UKCloud Ltd (registered number 07619797) were approved by the board of directors and authorised for issue on 18 December 2019

They were signed on its behalf by:

William Ginn
Director

The notes on pages 15 to 29 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2019

	Share Capital £'000	Capital Contribution Reserve £'000	Profit and Loss Account £'000	Total £'000
At 1 April 2017	1	9,963	(12,057)	(2,093)
Recognition of share based payment (note 21)	-	(2,317)	-	(2,317)
Profit for the financial year	-	-	3,204	3,204
At 31 March 2018	1	7,646	(8,853)	(1,206)
Recognition of share based payment (note 21)	-	(1,064)	-	(1,064)
Loss for the financial year	-	-	(2,282)	(2,282)
At 31 March 2019	1	6,582	(11,135)	(4,552)

The notes on pages 15 to 29 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

1. COMPANY INFORMATION

UKCloud Ltd, a private company limited by shares and incorporated in England and Wales (Registered Number 07619797). Its registered office is at Hartham Park, Corsham Wiltshire, SN13 0RP. The principal activity of the company is the provision of assured ICT cloud computing services to the UK Public Sector exclusively from UK sovereign facilities.

2. BASIS OF PREPARATION

The financial statements are prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ("FRS102"), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The particular accounting policies adopted, which have been applied consistently throughout the current and prior financial periods are described below.

The company has taken advantage of the following disclosure exemptions in preparing these financial statements as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland:

- The requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- The requirements of Section 7 Statement of Cash Flows;
- The requirements of Section 3 Financial Statement Presentation 3.17(d);
- The requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(b) and 11.48(c);
- The requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Virtual Infrastructure Group Limited for the year ended 31 March 2019 and these financial statements may be obtained from Hartham Park, Corsham, Wiltshire, SN13 0RP.

3. GOING CONCERN

The directors have prepared cash flow forecasts for a period exceeding 12 months from the date of approval of these financial statements, and additionally the directors have applied sensitivity analysis to these forecasts.

Whilst the Company has a net current liabilities position, this is primarily due to the amount funded by its parent (which has no investments other than that in the Company) being stated within Creditors: Amounts Falling Due Within One Year.

As a result of its strategy of investment in sales, marketing and development resources and in expanding the platform itself (including its new SECRET platform) the Company incurred a loss in the period and expects to continue this investment over the next 12 months. The Company's parent received an equity investment of £15m in April 2019 from Digital Alpha Advisors, which has contractually committed to provide a further equity investment of £10m when the SECRET platform supports a revenue of £625k in any 3 month-period. The company repaid its revolving credit facility with Barclays Bank in August 2019, and subsequent to the balance sheet date has taken out an unsecured debt facility with Cisco Capital totalling £5.0m as at the date of these financial statements.

3. GOING CONCERN (continued)

The company expects that with its resources of cash, committed equity investment and expected access to debt facilities it will be able to continue its planned investment strategy over the next 12 months. Should the Company need to delay its level of investment in order to match its available working capital facilities, the business would be able to do so. The directors have a reasonable expectation that the company has sufficient resources to continue to trade for at least 12 months from the date of signing this report and have therefore adopted the going concern basis in preparing the financial statements.

4. SIGNIFICANT JUDGEMENTS AND ESTIMATES

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made include:

Share-based payment

Share-based compensation is measured at the grant date, based on the estimated fair value of the award, and is recognised as an expense over the employee's service period. The fair value of options granted is measured by the use of a Black-Scholes model, taking into account the terms and conditions under which the options were granted. The expected life used in the model has been adjusted, based on management's best estimates for the effects of non-transferability, exercise restrictions and behavioural conditions. The volatility used in the model is based on comparable companies as the shares of the Company's parent (over which the options are granted) are not publicly traded.

Judgements are made at the balance sheet date about the vesting date, and the likely attrition of option holders.

Impairment

The Company reviews the carrying amounts of its Tangible and Intangible Assets at each balance sheet date to establish whether there has been an impairment loss. In so doing the Company considers the likely cash flows supported by the assets in question and if the recoverable amount does not exceed this value in use, a diminution in value is reflected in the Profit and Loss account.

5. ACCOUNTING POLICIES

Turnover

Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due, excluding Value Added Tax. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of accumulated depreciation and any provision for impairment. Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life, which is assumed as 5 years for all assets other than end-user laptops and desktops. The rates of depreciation are as follows:

Computer equipment	20% per annum on straight line basis
Laptops	33% per annum on straight line basis

5. ACCOUNTING POLICIES (continued)

Intangible fixed assets

Intangible fixed assets are stated at cost, net of accumulated amortisation and any provision for impairment. Amortisation is provided at the following annual rates in order to write off each asset over its estimated useful life, which is assumed as 5 years for all assets. The rates of amortisation are as follows:

Computer software	20% per annum on straight line basis

Foreign currency

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Taxation

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, the deferred tax is reversed.

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if:

> the group has a legally enforceable right to set off current tax assets against current tax liabilities,
>
> and
>
> the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

Leases

Rental costs under contractual operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases. Where no contract exists, operating leases are charged on an invoiced basis.

Cash flow statement

The company has not prepared a cash flow statement as a consolidated group cash flow statement has been prepared by its parent, Virtual Infrastructure Group Limited.

Pensions

Payments to defined contribution retirement benefit schemes are charged to the income statement as they fall due. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

5. ACCOUNTING POLICIES (continued)

Share-Based Payment

Share-based compensation is measured at the grant date, based on the estimated fair value of the award, and is recognised as an expense over the employee's service period. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

Holiday Pay Accruals

The Company recognises an accrual for annual leave owed to employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 9 months. The accrual is measured at the salary cost payable for the period of absence plus the associated Employer's National Insurance contributions.

Debtors

Trade debtors are measured at transaction price, less any impairment.

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value

5. ACCOUNTING POLICIES (continued)

Financial instruments

The accounts of the Company have adopted the exemptions from providing financial instrument disclosures including:

- categories of financial instruments
- items of income, expenses, gains or losses relating to financial instruments, and
- exposure to and management of financial risks

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Profit and loss account.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs.

To the extent that this definition of equity instruments is not met, financial instruments are classified as a financial liability. Where the instrument takes the legal form of the Company's own shares, amounts presented for called up share capital and share premium account excludes amounts in relation to those shares. Where a financial instrument is classified as a compound instrument, containing both equity and financial liability components, these components are separated and accounted for individually.

Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

6. TURNOVER

All turnover arose within the United Kingdom and related to the Company's principal activity.

7. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Interest payable to Group Companies	590	612
Loan interest	306	291
Amortisation of Loan issue costs	25	14
	921	917

8. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is after charging:	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Operating Leases – Land and Buildings	3,811	3,747
Depreciation of Tangible Fixed Assets	5,757	5,973
Amortisation of Intangible Fixed Assets	675	629
Share Based Payment Credit	(1,064)	(2,317)
Foreign Exchange	7	(3)
Auditors remuneration – audit of the company	28	22
Auditors remuneration – audit of group companies	15	4
Auditors remuneration – non-audit services	9	13

Auditors remuneration – Audit of Group Companies above includes amounts paid on behalf of the Company's parent, Virtual Infrastructure Group Limited.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

9. TAX ON LOSS ON ORDINARY ACTIVITIES

Analysis of charge in the period:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Current tax:		
UK corporation tax on profits of the period	(818)	-
Adjustments in respect of prior periods	(223)	-
Current tax charge/(credit) for period	(1,041)	-
Deferred tax:		
Origination and reversal of timing differences	(335)	(496)
Effects of tax rate change on opening balance	-	-
Adjustments in respect of prior periods	235	(386)
Total deferred tax (credit) (note 9)	(100)	(882)
Total on loss on ordinary activities	(1,141)	(882)

Factors affecting tax charge for the period:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
(Loss)/Profit on ordinary activities before tax	(3,423)	2,322
Tax on (loss)/profit at standard rate of tax of 19% (2018: 19%)	(650)	441
Effects of:		
Expenses not deductible for tax purposes	8	15
Income not taxable for tax purposes	(202)	(440)
Additional Deduction for R&D expenditure	(606)	(576)
Other permanent differences	3	1
Surrender of tax losses for R&D tax credit refund	254	-
Other tax adjustments, reliefs and transfers	(11)	-
Fixed Asset Differences	11	5
Adjustment to tax charge in respect of prior periods	(223)	-
Adjustment to tax charge in respect of prior periods – deferred tax	235	(386)
Adjust closing deferred tax to average rate of 19%	120	108
Adjust opening deferred tax to average rate of 19%	(81)	(50)
Current tax (credit) for period	(1,141)	(882)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

10. DEFERRED TAXATION

Deferred taxation of £100,000 has been recognised (2018: £882,000 recognised) in the period. Deferred tax is made up as follows:

	Recognised		Not recognised	
	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Accelerated capital allowances	(808)	(365)	-	-
Short term timing differences	(18)	(10)	-	-
Losses	(193)	(545)	-	-
	(1,020)	(920)	-	-

11. TANGIBLE FIXED ASSETS

	Computer equipment £'000
Cost	
At 1 April 2018	32,882
Additions	6,692
Disposals	(1,239)
At 31 March 2019	38,334
Accumulated depreciation	
At 1 April 2018	17,272
Charge in period	5,757
Disposals	(1,210)
At 31 March 2019	21,819
Net book value	
At 31 March 2019	16,516
At 1 April 2018	15,610

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

12. INTANGIBLE FIXED ASSETS

	Computer Software £'000
Cost	
At 1 April 2018	3,421
Additions	345
Disposals	0
At 31 March 2019	3,766
Accumulated amortisation	
At 1 April 2018	1098
Charge in period	675
Disposals	0
At 31 March 2019	1,773
Net book value	
At 31 March 2019	1,993
At 1 April 2018	2,323

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

13. DEBTORS

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Amounts falling due within one year:		
Trade debtors	5,072	4,847
Other Debtors	734	-
VAT	34	-
Current tax assets	1,041	-
Prepayments and accrued income	2,931	2,272
	9,812	7,119
Amounts falling due in more than one year:		
Deferred tax assets	1,019	920
	1,019	920
	10,831	8,039

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Trade creditors	7,871	2,947
Taxation and social security	455	397
VAT	-	418
Deferred income	78	596
Accruals and other creditors	1,918	2,050
Revolving Credit Facility	3,507	3,000
Intragroup creditors	20,536	20,032
	34,365	29,440

The amount shown under Intragroup creditors includes both interest and non-interest bearing loans from the Company's parent, Virtual Infrastructure Group Limited. The interest-bearing loan at the balance sheet date was composed of principal of £3,200,000 and accrued interest of £1,590,000. The interest on the loan accrues at a rate of 10% per annum. The non-interest-bearing loan has been stated at amortised cost.

The Revolving Credit Facility was provided by Barclays Bank plc and at the balance sheet date had a maturity date of April 2019 (which was subsequently extended after the balance sheet date). The facility was fully repaid and cancelled in August 2019. Interest was charged on amounts drawn under the facility at a rate of 7.0% per annum above Barclays Bank Base Rate (approximately 0.7%). A Commitment Fee was charged on amounts available under the facility, but undrawn, at a rate of 3.5% per annum. The Revolving Credit Facility was secured by a fixed and floating charge over the Company's assets, which was released after the final repayment of the facility.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

15. SHARE CAPITAL

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Allotted and fully paid		
Ordinary shares of 1p	1	1
	1	1

16. REMUNERATION OF KEY MANAGEMENT PERSONNEL

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Remuneration of Key Management Personnel		
Emoluments	719	707
Contributions to money purchase pension schemes	-	20
Long term incentives	-	-
Compensation for loss of office	-	-
	719	727
Remuneration of the highest paid director:		
Emoluments	416	409
Long term incentives	-	-
Company contributions to money purchase schemes	-	9

Company contributions to money purchase schemes were made on behalf of no directors (2018: 2 directors) during the year.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

17. EMPLOYEE REMUNERATION

Staff Costs during the year were as follows:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Wages and salaries	12,301	11,447
Social security costs	1,497	1,398
Other pension costs	409	343
	14,206	13,188

The average monthly number of employees, including the directors, during the year was as follows:

	Year ended 31 March 2019	Year ended 31 March 2018
Sales and Marketing	29	28
Technical, general and administration	163	146
	192	174

18. PENSIONS

The Company operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the scheme are held separately from those of the Company in funds under the control of Trustees. The total cost recorded in the income statement of £409,000 (2018: £343,000) represents contributions payable to this scheme by the Company at rates specified in the plan and employee contractual arrangements. As at 31 March 2019, contributions of £81,000 (2018: £nil) due in respect of the current reporting period had not been paid over to the scheme.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2019

19. FINANCIAL COMMITMENTS

Financial commitments under non-cancellable operating leases for land and buildings, relating to the Company's office facilities, are as follows:

	At 31 March 2019		At 31 March 2018	
	With Related Parties £'000	Other £'000	With Related Parties £'000	Other £'000
Financial Commitments falling due:				
- within one year	-	57	-	57
- between two and five years	-	-	-	-
- after five years	-	-	-	-
	-	57	-	57

20. CAPITAL COMMITMENTS

The Company periodically invests in additional fixed assets to increase the capacity of its platform as it grows. Prior to the balance sheet date, the Company had committed to purchase Computer Equipment and Computer Software of which it expects to take delivery following the balance sheet date.

The amount contracted for but not yet invoiced at the balance sheet date was £463,000 (2018: £57,000).

21. RELATED PARTY TRANSACTIONS

Trading Transactions

The Company incurred £176,000 during the year (2018: £217,000) relating to technical and consultancy services provided by Hadston Limited, a company controlled by one of the Company's Directors. The total amount relating to such services payable at the balance sheet date is £nil (2018: £nil).

The Company incurred £62,000 during the year (2018: £21,000) relating to technical and consultancy services provided by Made By Brittan Too Limited, a company controlled by one of the Company's Directors. The total amount relating to such services payable at the balance sheet date is £nil (2018: £nil).

22. SHARE OPTIONS

Options to subscribe for B Ordinary Shares in the Company's parent, Virtual Infrastructure Group Limited, have been granted to employees of the Company, pursuant to the Virtual Infrastructure Group Enterprise Management Incentive Scheme. No options were granted during the year.

A total of 23,700 options were in issue at the balance sheet date, held by a total of 58 employees, all at a subscription price per share of 1p.

The options are exercisable on an exit event (which includes a sale or listing of the Company's parent) and became capable of exercise, subject to performance criteria, in equal tranches across the number of years from the grant date until March 2017. The options are equity settled once exercised.

The inputs to the Black Scholes model include an expected life of the number of years from the grant date to 31 March 2022, an average share price for new options granted of £nil per share (2018: £nil), a risk free rate of 3% and a volatility based on the average of comparator companies of 50%.

The Company recognised a total credit of £1,064,000 (2018: £2,317,000 credit) during the period, correspondingly increasing the Capital Contribution Reserve on the balance sheet by the same amount.

23. ULTIMATE CONTROLLING PARTY

The parent company is Virtual Infrastructure Group Limited, a company incorporated in England and Wales with the registered number 08099285, whose registered office is at Hartham Park, Corsham, Wiltshire, SN13 0RP. There is not deemed to be an ultimate controlling party.