Company Registration Number 08099285

Virtual Infrastructure Group Limited

Financial Statements

For the year ended 31 March 2016

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VIRTUAL INFRASTRUCTURE GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS 2016

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Officers and professional advisors

Directors	J R Sanders S J Hansford P M Dawson (resigned 10 February 2016) S Brittan W T Ginn J Thomas J Austin
Company Secretary	P M Dawson
Registered Office	Hartham Park Hartham

Strategic Report for the year ended 31 March 2016

The directors present their Strategic Report for the year ended 31 March 2016.

Business Review and future developments

The Group's principal activity is the supply of a secure and scalable Infrastructure as a Service (IaaS) platform that is tailored for the exclusive use of the UK public sector. This has distinct characteristics including data sovereignty, security certifications, assurance and connectivity to secure government networks.

As the main cloud partner for government agencies, suppliers and major system integrators, the Company's wholly owned subsidiary, Skyscape Cloud Services Limited ("Skyscape") currently serves central government departments and local authorities on nearly 200 active revenue generating cloud projects and has a leading position at the heart of a very rapidly growing UK public sector Public Cloud market supported by the Government's "Cloud First" policy and the establishment of the G-Cloud Framework.

A combination of a highly flexible and scalable hourly consumption revenue model, credible track record with UK public sector customers, government-grade security and direct government network connectivity create meaningful and sustainable barriers to entry.

Success in winning contracts has driven significant economies of scale and continuous improvements in efficiency resulting in growth in profits and strong cash flow.

As Skyscape continues to reinforce its leadership position, investments and innovation will continue in its cloud platform with a new hyper-scale architecture that supports specialised scale-out workloads such as High Performance Compute and new Big Data applications as well as the cloud native workloads on an OpenStack platform. Additional investments will be made in the organisational capability to support this growth with headcount, expansion of the management team, professional development and new functions that will further improve customer care.

Key performance indicators

Revenue has increased almost nine fold in two years from £3.7m for FY14 to £32.1m for FY16 (a Compound Annual Growth Rate of 195.8%) driven by growth in consumption of compute hours by existing and new customers and from existing and new workloads.

For FY17, it is forecast that the company will continue to see strong growth in both revenues and profitability, as the new customers, additional partners and more workloads transition to the platform.

Business environment and strategy

Skyscape's vision "to be the power behind public sector technology" is highly realisable and it remains laser focused to make this a reality.

As of today, public sector IaaS penetration stands at only 7% for central and 2% for local government, and less in other public sector bodies. Because of this cloud penetration in the UK government will drive 48% CAGR for the public sector IaaS market until 2020, with 4 out of 5 government CIOs considering to adopt cloud solutions when investing in a new project.

Our proven ability to many government departments drive trust and uniquely position Skyscape to capture increased usage from current contracts by expanding existing workloads and adding new workloads. Skyscape will also benefit significantly from the upcoming wave of large legacy hosting contracts that are due for renewal in the coming years by working closely with the partner ecosystem and incumbent vendors.

Strategic Report for the year ended 31 March 2016 (continued)

Principal risks and uncertainties

The management of the Group and the execution of the Group's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Group 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 the G-Cloud procurement framework increasingly understood, that this trend will continue unabated and on a scale that will enable Skyscape 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 Group 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 CESG).

- 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 along with the adoption of simple terms and conditions aligned to the G-Cloud programme.

- Our ability to continue to recruit and retain appropriate technical, operational, commercial and leadership talent to build Skyscape into the leading provider of assured cloud services to the UK Public Sector. Skyscape has a comprehensive recruitment and human resource management program to identify, recruit, develop, motivate and retain talent. Employees participate in an approved Enterprise Management Incentive share option scheme.

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
26 May 2016

Directors Report for the year ended 31 March 2016

The directors present their report and the financial statements for the year ended 31 March 2016.

Directors of the company

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

S Brittan

P M Dawson (resigned 10 February 2016)

W T Ginn

S J Hansford

J R Sanders

J Thomas

J Austin

Principal activity

The Company's principal activity is that of a holding company. The Company's only current investment is in Skyscape Cloud Services Ltd, of which it owns 100% of the share capital. The principal activity of Skyscape is the provision of assured ICT cloud computing services to the UK Public Sector exclusively from UK sovereign facilities.

Charitable donations

Charitable donations of £130,000 were made by the Group during the period. Corporate and social responsibility is an integral part of the Group strategy, culture and operations, and the Group was proud to support a number of causes during the year including The Prince's Trust, Children in Need, Sport Relief, Great Ormond Street Hospital and Royal Brompton and Harefield Hospital.

Political contributions

No political contributions were made during the period.

Research and development

Our markets have a unique set of requirements and are rapidly evolving. The Group 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 Group makes significant investments in talented people and research and development.

The Group 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.

Directors Report for the year ended 31 March 2016 (continued)

Going Concern

During the year, the Group secured a £1,000,000 extension to its revolving credit facility from Barclays Bank plc, in order to support the working capital requirements of the Group as it grows.

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. Given the funding available via the cash flow generated by Skyscape and via the revolving credit facility, the directors have a reasonable expectation that the Group has sufficient resources to continue to trade for at least 12 months from the date of signing this report. The directors 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 Group and of the profit or loss of the Group 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 Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 the Group 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 Group'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 Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Directors Report for the year ended 31 March 2016 (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
26 May 2016

Independent auditors report to members of Virtual Infrastructure Group Limited

We have audited the financial statements of Virtual Infrastructure Group Limited for the year ended 31 March 2016 which comprise the consolidated and parent company statements of financial position, the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated and company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2016 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion 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.

Independent auditors report to members of Virtual Infrastructure Group Limited (continued)

Matters on which we are required to report by exception

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

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



James Morter
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Bristol
26 May 2016

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2016

	Note	Year ended 31 March 2016 £'000	11months ended 31 March 2015 £'000
TURNOVER	5	32,052	15,503
Cost of sales		(10,411)	(6,814)
GROSS PROFIT		21,641	8,689
Administrative expenses		(15,257)	(10,078)
OPERATING PROFIT/(LOSS) BEFORE SHARE BASED PAYMENT		6,384	(1,389)
Share-based Payment Charges		(3,353)	(1,851)
OPERATING PROFIT/(LOSS)		3,031	(3,240)
Interest payable and similar charges	6	(645)	(463)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION AND FAIR VALUE ADJUSTMENT ON EQUITY CLASSIFIED AS DEBT	7	2,386	(3,703)
Fair value adjustment on equity classified as debt	6	(7,497)	(5,528)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(5,111)	(9,231)
Tax on loss on ordinary activities	8	(1,183)	2,713
LOSS FOR THE FINANCIAL YEAR		(6,293)	(6,518)
Other Comprehensive Income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		(6,293)	(6,518)

The above results relate entirely to continuing activities. The notes on pages 17 to 38 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 March 2016

	Note	2016		2015	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Intangible assets	12	366		203	
Tangible assets	11	14,214		8,432	
		14,580		8,635	
CURRENT ASSETS					
Debtors	14	7,422		6,686	
Cash at bank and in hand		613		1,290	
		8,035		7,976	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	(7,505)		(6,223)	
NET CURRENT ASSETS			530		1,753
CREDITORS: AMOUNTS FALLING DUE IN MORE THAN ONE YEAR	18	(8,375)		(14,409)	
TOTAL ASSETS/(LIABILITIES)			6,735		(4,021)
CAPITAL AND RESERVES					
Called up share capital	20		2		2
Share Premium			15,395		14,724
Share Option Reserve			6,413		3,060
Other Distributable Reserves			13,025		-
Profit and loss account			(28,100)		(21,807)
SHAREHOLDERS' FUNDS			6,735		(4,021)

The notes on pages 17 to 38 form part of these financial statements.

The financial statements of Virtual Infrastructure Group Limited (registered number 08099285) were approved by the board of directors and authorised for issue on 26 May 2016

They were signed on its behalf by:



William Ginn
Director

COMPANY STATEMENT OF FINANCIAL POSITION
At 31 March 2016

	Note	2016		2015	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Investments	14	18,513		19,272	
		18,513		19,272	
CURRENT ASSETS					
Debtors	16	7,769		3,022	
Cash at bank and in hand		96		1	
		7,865		3,023	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	18	(479)		(638)	
NET CURRENT ASSETS			7,386		2,385
CREDITORS: AMOUNTS FALLING DUE IN MORE THAN ONE YEAR	20	(4,900)		(10,934)	
TOTAL ASSETS/(LIABILITIES)			20,999		10,723
CAPITAL AND RESERVES					
Called up share capital	21		2		2
Share Premium			15,395		14,724
Share Option Reserve			6,413		3,060
Other Distributable Reserves			13,025		-
Profit and loss account			(13,836)		(7,063)
SHAREHOLDERS' FUNDS			20,999		10,723

The notes on pages 17 to 38 form part of these financial statements.

The financial statements of Virtual Infrastructure Group Limited (registered number 08099285) were approved by the board of directors and authorised for issue on 26 May 2016

They were signed on its behalf by:



William Ginn
Director

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March 2016

	Year ended 31 March 2016 £'000	11 months ended 31 March 2015 £'000
Cash flows from operating activities:		
Loss for the financial year	(6,293)	(6,518)
Adjustments for:		
Depreciation of tangible assets	3,234	1,921
Amortisation of intangible assets	129	70
Interest Payable	8,142	5,991
Share Based Payment Charge	3,353	1,851
Decrease/(increase) in trade and other debtors	(1,965)	(2,110)
Increase/(decrease) in trade and other creditors	1,644	3,437
Tax charged/(credited) to profit for the financial year	1,182	(2,713)
Net cash generated from operating activities	**9,426**	**1,929**
Tax recovered	**48**	**-**
Cash flows from investing activities		
Purchases of tangible assets	(9,028)	(4,615)
Purchases of intangible assets	(292)	(45)
Net cash from investing activities	**(9,320)**	**(4,660)**
Cash flows from financing activities		
Interest paid	(831)	(76)
Bank loans drawn/(repaid)	-	2,405
Net cash from financing activities	**(831)**	**2,329**
Net increase in cash and cash equivalents	**(677)**	**(402)**
Cash and cash equivalents at beginning of year	**1,290**	**1,692**
Cash and cash equivalents at end of year	**613**	**1,290**

The notes on pages 17 to 38 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2016

	Share Capital £'000	Share Premium £'000	Share Option Reserve £'000	Other Reserves £'000	Profit and Loss Account £'000	Total £'000
At 1 May 2014	2	14,743	1,209	-	(15,289)	665
Recognition of share based payment	-	-	1,851	-	-	1,851
Profit/(Loss) for the Financial Year	-	-	-	-	(6,518)	(6,518)
Movement in Share Premium	-	(19)	-	-	-	(19)
At 31 March 2015	2	14,724	3,060	-	(21,807)	(4,021)
Recognition of share based payment	-	-	3,353	-	-	3,353
Profit/(Loss) for the Financial Year	-	-	-	-	(6,293)	(6,293)
Movement in Share Premium	-	671	-	-	-	671
Transfer of equity previously classified as debt	-	-	-	13,025	-	13,025
At 31 March 2016	2	15,395	6,413	13,025	(28,100)	6,735

The notes on pages 17 to 38 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2016

	Share Capital £'000	Share Premium £'000	Share Option Reserve £'000	Other Reserves £'000	Profit and Loss Account £'000	Total £'000
At 1 May 2014	2	14,743	1,209	-	(1,220)	14,734
Recognition of share based payment	-	-	1,851	-	-	1,851
Profit/(Loss) for the Financial Year	-	-	-	-	(5,843)	(5,843)
Movement in Share Premium	-	(19)	-	-	-	(19)
At 31 March 2015	2	14,724	3,060	-	(7,063)	10,723
Recognition of share based payment	-	-	3,353	-	-	3,353
Profit/(Loss) for the Financial Year	-	-	-	-	(6,773)	(6,773)
Movement in Share Premium	-	671	-	-	-	671
Transfer of equity previously classified as debt	-	-	-	13,025	-	13,025
At 31 March 2016	2	15,395	6,413	13,025	(13,836)	20,999

The notes on pages 17 to 38 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

1. COMPANY INFORMATION

Virtual Infrastructure Group Limited is incorporated in England and Wales (Registered Number 08099285) with its registered office at Hartham Park, Corsham Wiltshire SN13 0RB. The Company's principal activity is that of a holding company. The Company's only current investment is in Skyscape Cloud Services Ltd, of which it owns 100% of the share capital. The principal activity of Skyscape is the provision of assured ICT cloud computing services to the UK Public Sector exclusively from UK sovereign facilities.

2. BASIS OF PREPARATION

These financial statements have been 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' ('FRS 102'), 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.

This is the first year in which the financial statements have been prepared under FRS 102. Refer to note 30 for an explanation of the transition.

The group financial statements consolidate the financial statements of Virtual Infrastructure Group Limited and its subsidiary undertaking, Skyscape Cloud Services Ltd., drawn up to 31 March each year.

The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own Profit and Loss Account in these financial statements. The parent company's loss for the year was £6,773,000 (2015: £5,843,000).

The individual accounts of Virtual Infrastructure Group Limited have also adopted the following disclosure exemptions:

the requirement to present a statement of cash flows and related notes
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

3. 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 judgments 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.

The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

Fair value of equity classified as debt

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

Under the Articles of Association of the Company, up to the time of their amendment on 29 March 2016, certain classes of share capital were guaranteed a return of 10% of net profits from the financial year ending 31 March 2020 onwards, so there was an obligation on the company and the instrument was a compound financial instrument.

The best estimate of the present value of the guaranteed return based on a discounted cash flow calculation was classified as a Creditor due in more than one year during the periods for which the obligation existed (Note 19). Movements in the fair value of this estimate have been reported within Interest Payable and Similar Charges. The key sensitivities which affect the estimate are the assumptions used for the discount rate and profit growth rate. The remainder of the value of the instrument has been classified as equity.

An amendment made to the Articles of Association of the Company on 29 March 2016 removed the obligation to provide such a guaranteed return, and so at the balance sheet date the accumulated interest payable and similar charges have been transferred to other reserves and share premium.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

4. 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. The rates of depreciation are as follows:

Computer equipment	20% per annum on straight line basis

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. The rates of amortisation are as follows:

Computer software	20% per annum on straight line basis

Investments

Fixed asset investments are shown at cost less provision for impairment.

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.

4. ACCOUNTING POLICIES (continued)

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 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 is recognised when income or expenses from a subsidiary or associate have been recognised, and will be assessed for tax in a future period, except where:

the group is able to control the reversal of the timing difference; and

it is probable that the timing difference will not reverse in the foreseeable future.

A deferred tax liability or asset is recognised for the additional tax that will be paid or avoided in respect of assets and liabilities that are recognised in a business combination. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised. Deferred tax is calculated using the tax rates and laws that that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

With the exception of changes arising on the initial recognition of a business combination, the tax expense (income) is presented either in profit or loss, other comprehensive income or equity depending on the transaction that resulted in the tax expense (income).

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

4. ACCOUNTING POLICIES (continued)

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.

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.

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.

Going concern

During the year, the Group secured a £1,000,000 extension to its revolving credit facility from Barclays Bank plc, in order to support the working capital requirements of the Group as it grows.

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. Given the funding available via the cash flow generated by Skyscape and via the revolving credit facility, the directors have a reasonable expectation that the Group has sufficient resources to continue to trade for at least 12 months from the date of signing this report. The directors have therefore adopted the going concern basis in preparing the financial statements.

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.

4. 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 Group 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 2016

5. TURNOVER

All turnover arose within the United Kingdom.

6. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 March 2016 £'000	11 months ended 31 March 2015 £'000
Interest Payable on Secured Loan Notes	320	304
Fair value movement of equity classified as debt	7,497	5,528
Loan interest	290	144
Amortisation of Loan issue costs	35	15
	8,142	5,991

Under the Articles of Association of the Company, up to the time of their amendment on 29 March 2016, certain classes of share capital were guaranteed a return of 10% of net profits from the financial year ending 31 March 2020 onwards, so there was an obligation on the company and the instrument was a compound financial instrument.

The best estimate of the present value of the guaranteed return based on a discounted cash flow calculation was classified as a Creditor due in more than one year during the periods for which the obligation existed. Movements in the fair value of this estimate have been classified within Interest Payable and Similar Charges. An amendment made to the Articles of Association of the Company on 29 March 2016 removed the obligation to provide such a guaranteed return.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

7. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is after charging:	Year ended 31 March 2016 £'000	11 months ended 31 March 2015 £'000
Operating Leased	3,485	3,015
Depreciation of Tangible Fixed Assets	3,234	1,921
Amortisation of Intangible Fixed Assets	129	70
Share Based Payment Charges	3,353	1,851
Foreign Exchange	15	-
Auditors remuneration – audit of the company	4	4
Auditors remuneration – audit of group companies	23	23
Auditors remuneration – non-audit services	12	11

Auditors remuneration – Audit of Group Companies above includes amounts paid for the audit of the Company's subsidiary, Skyscape Cloud Services Ltd.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

8. TAX ON LOSS ON ORDINARY ACTIVITIES - GROUP

Analysis of charge in the period:

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Current tax:		
UK corporation tax on profits of the period	-	(78)
Adjustments in respect of prior periods	-	(46)
Current tax charge for period	-	(124)
Deferred tax:		
Origination and reversal of timing differences	1,178	(11)
Effects of tax rate change on opening balance	287	-
Adjustments in respect of prior periods	(283)	(2,577)
Total deferred tax (note 10)	1,182	(2,588)
Total on profit on ordinary activities	1,182	(2,713)

Factors affecting tax charge for the period:

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Profit/(Loss) on ordinary activities before tax	(5,110)	(9,230)
Tax on profit/(loss) at standard rate of tax of 20%	(1,022)	(1,846)
Effects of:		
Expenses not deductible for tax purposes	2,394	447
Research and Development tax credit	(63)	(138)
Fixed asset timing differences	(6)	-
Depreciation for period in excess of/(less than) capital allowances	(10)	(20)
Movement in short term timing differences	(152)	(10)
Adjustment to tax charge in respect of prior periods	-	(2,623)
Deferred tax on losses	1,341	108
Utilisation of tax losses	(1,300)	312
Transition to FRS102	-	1,058
Current tax charge for period	1,182	(2,713)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

9. DEFERRED TAXATION - GROUP

Deferred taxation of £1,183,000 has been utilised (2015: £2,589,000 recognised) in the period. Deferred taxation is made up as follows:

	Recognised		Not recognised	
	Year ended 31 March 2016 £'000	11months ended 31 March 2015 £'000	Year ended 31 March 2016 £'000	11 months ended 31 March 2015 £'000
Accelerated capital allowances	146	151	-	-
Short term timing differences	(4)	(3)	-	-
Losses	(1,548)	(2,737)	-	(283)
	(1,406)	(2,589)	-	(283)

10. DEFERRED TAXATION - COMPANY

Deferred taxation of £152,000 (2015: £nil) has been recognised in the period made up as follows:

	Recognised		Not recognised	
	Year ended 31 March 2016 £'000	11months ended 31 March 2015 £'000	Year ended 31 March 2016 £'000	11 months ended 31 March 2015 £'000
Accelerated capital allowances	-	-	-	-
Short term timing differences	-	-	-	-
Losses	(152)	-	-	(283)
	(152)	-	-	(283)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

11. TANGIBLE FIXED ASSETS - GROUP

	Computer equipment £'000
Cost	
At 1 April 2015	12,545
Additions	9,028
Disposals	(19)
At 31 March 2016	21,554
Accumulated depreciation	
At 1 April 2015	4,113
Charge in period	3,234
Disposals	(7)
At 31 March 2016	7,340
Net book value	
At 31 March 2016	14,214
At 1 April 2015	8,432

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

12. INTANGIBLE FIXED ASSETS - GROUP

	Computer Software £'000
Cost	
At 1 April 2015	399
Additions	292
At 31 March 2016	691
Accumulated amortisation	
At 1 April 2015	196
Charge in period	129
At 31 March 2016	325
Net book value	
At 31 March 2016	366
At 1 April 2015	203

13. FIXED ASSET INVESTMENTS - COMPANY

Subsidiary undertakings

Skyscape Cloud Services Ltd (Ordinary, 100%)

	£'000
Cost and net book value:	
At 01 April 2015	19,272
Movement in cost	(759)
At 31 March 2016	18,513

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

14. DEBTORS - GROUP

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Amounts falling due within one year:		
Trade debtors	4,910	3,732
Other debtors	-	-
Current tax assets	79	124
Prepayments and accrued income	1,027	241
	6,016	4,097
Amounts falling due in more than one year:		
Deferred tax assets	1,406	2,589
	1,406	2,589
	7,422	6,686

15. DEBTORS - COMPANY

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Amounts falling due within one year:		
Intragroup trading balances	7,491	2,946
Value added tax	113	54
Prepayments and accrued income	13	23
	7,617	3,022
Amounts falling due in more than one year:		
Deferred tax assets	152	-
	152	-
	7,769	3,022

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (GROUP)	**Year ended 31 March 2016 £'000**	**Year ended 31 March 2015 £'000**
Trade creditors	3,329	2,081
Taxation and social security	215	144
VAT	624	545
Deferred income	240	452
Accruals and other creditors	3,013	2,691
Secured Loan Note Interest Payable	80	310
	7,505	6,223

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (COMPANY)	**Year ended 31 March 2016 £'000**	**Year ended 31 March 2015 £'000**
Trade Creditors	399	328
Secured Loan Note Interest Payable	80	310
	479	638

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

18. CREDITORS: AMOUNTS FALLING DUE IN MORE THAN ONE YEAR (GROUP)	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Accruals	1,700	1,534
Secured Loan Notes	3,200	3,200
Equity Classified as Debt at fair value	-	6,200
Revolving Credit Facility	3,475	3,475
	8,375	14,409

The Revolving Credit Facility is provided by Barclays Bank plc and has a maturity date of August 2017. At the balance sheet date, the total amount available under the Revolving Credit Facility was £5,000,000. Interest is charged on amounts drawn under the facility at a rate of 7.0% per annum above Barclays Bank Base Rate (currently 0.6%). A Commitment Fee is charged on amounts available under the facility, but undrawn, at a rate of 3.5% per annum. The Revolving Credit Facility is secured by a fixed and floating charge over the Company's assets.

The Company has granted a fixed and floating charge on its assets to secure the loan notes. The loan notes have a final maturity date of 30 September 2022, and the principal is repayable in 8 equal half-yearly instalments starting on 31 March 2019. The loan notes have an interest rate of 10% per annum.

Accruals of £1,700,000 represent the effect of charging the lifetime rental costs of the operating leases held by the Company on a straight line basis.

Under the Articles of Association of the Company, up to the time of their amendment on 29 March 2016, certain classes of share capital were guaranteed a return of 10% of net profits from the financial year ending 31 March 2020 onwards, so there was an obligation on the company and the instrument was a compound financial instrument.

The best estimate of the present value of the guaranteed return based on a discounted cash flow calculation was classified as a Creditor due in more than one year during the periods for which the obligation existed. Movements in the fair value of this estimate have been classified within Interest Payable and Similar Charges. An amendment made to the Articles of Association of the Company on 29 March 2016 removed the obligation to provide such a guaranteed return.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

19. CREDITORS: AMOUNTS FALLING DUE IN MORE THAN ONE YEAR (COMPANY)

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Accruals	1,700	1,534
Secured Loan Notes	3,200	3,200
Equity Classified as Debt at fair value	-	6,200
	4,900	10,934

The Company has granted a fixed and floating charge on its assets to secure the loan notes. The loan notes have a final maturity date of 30 September 2022, and the principal is repayable in 8 equal half-yearly instalments starting on 31 March 2019. The loan notes have an interest rate of 10% per annum.

Details of these creditor balances are given in note 19.

20. SHARE CAPITAL

	At 31 March 2016 £	At 31 March 2015 £
Allotted and fully paid – 143,059 A ordinary shares of 1p	1,431	1,568
Allotted and fully paid – 45,822 Preferred shares of 1p	458	458
Allotted and fully paid – 27,220 C Preferred shares of 1p	272	135
Allotted and fully paid – 4,012 E ordinary shares of 1p	40	40
	2,201	2,201

During the period, 13,714 A ordinary shares were converted from ordinary shares into C Preferred shares.

With effect from the financial year ending 31 March 2020, each of the classes of shares, with the exception of the E ordinary shares, had up until 29 March 2016 a right to a dividend equal to 10% of the net profits of the group. The Articles of Association of the Company were varied on 29 March 2016 to remove this right. Dividend policy in the future is now subject to Board discretion.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

21. EMPLOYEE REMUNERATION – GROUP

Staff Costs during the year were as follows:

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Wages and salaries	7,124	5,880
Social security costs	986	612
Other pension costs	175	125
	8,285	6,617

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Sales and Marketing	23	15
Technical, general and administration	74	44
	97	59

22. REMUNERATION OF KEY MANAGEMENT PERSONNEL - GROUP

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Remuneration of Key Management Personnel		
Emoluments	732	727
Contributions to money purchase pension schemes	58	43
Long term incentives	-	410
Compensation for loss of office	210	-
	1,000	1,180
Remuneration of the highest paid director:		
Emoluments	360	243
Long term incentives	-	150
Company contributions to money purchase schemes	26	14

Company contributions to money purchase schemes were made on behalf of 3 directors (2015: 3 directors) during the year. One director resigned on 10 February 2016.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

23. PENSIONS - GROUP

The Group operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of Trustees. The total cost recorded in the income statement of £175,000 (2015: £125,000) represents contributions payable to this scheme by the Group at rates specified in the plan and employee contractual arrangements. As at 31 March 2016, contributions of £36,000 (2015: £21,000) due in respect of the current reporting period had not been paid over to the scheme.

24. FINANCIAL COMMITMENTS

Financial commitments under non-cancellable operating leases are as follows:

	At 31 March 2016		At 31 March 2015	
	Company £'000	Group £'000	Company £'000	Group £'000
Financial Commitments falling due:				
- within one year	3,225	3,690	2,912	3,649
- between two and five years	12,902	12,967	12,902	13,432
- after five years	3,742	3,742	6,968	6,968

25. CAPITAL COMMITMENTS

The Group periodically invests in additional fixed assets to increase the capacity of its platform as it grows. Prior to the balance sheet date, the Group 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 £2,688,000 (2015: £1,782,000).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

26. RELATED PARTY TRANSACTIONS

Trading Transactions

The Group incurred £158,000 (2015: £206,000) of charges during the year relating to technical and consultancy services provided by MDS Technologies Limited, a company controlled by an individual who was a Director of the Company up until their resignation on 10 February 2016. The total amount relating to such services payable at the balance sheet date is £nil (2015: £50,000). The Group provided services to the value of £3,729,000 (2015: £2,601,000) to MDS Technologies Limited. The total amount relating to such services payable at the balance sheet date is £266,000 (2015: £700,000)

The Company incurred £238,000 during the year (2015: £238,000) relating to technical and consultancy services provided by Hadston Limited, a company controlled by two of the Company's Directors. The total amount relating to such services payable at the balance sheet date is £nil (2015: £59,000).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

27. SHARE OPTIONS

Options to subscribe for B Ordinary Shares in the Company, have been granted to employees of the Company's subsidiary, Skyscape Cloud Services Ltd in the year, pursuant to the Virtual Infrastructure Group Enterprise Management Incentive Scheme. A total of 13,153 options were so granted in the year to a total of 55 employees, at a subscription price per share of 1p.

A total of 27,657 options were in issue at the balance sheet date, held by a total of 90 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) and vest in equal tranches across the number of years from the grant date until March 2017, subject to performance criteria. 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 March 2017, an average share price of £800 per share (2015: £652), a risk free rate of 3% and a volatility based on the average of comparator companies of 50%.

The Group recognised a total expense of £3,353,000 (2015: £1,851,000) during the period, correspondingly increasing the Share Option Reserve on the balance sheet by the same amount.

28. ULTIMATE CONTROLLING PARTY

There is not deemed to be a single ultimate controlling party.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

29. TRANSITION TO FRS 102

The Group has adopted FRS 102 for the year ended 31 March 2016 and has restated the comparative prior year amounts.

Changes for FRS 102 adoption

1. The Group now 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 9 months following the end of the period. The accrual is measured at the salary cost payable for the period of absence plus the associated Employer's National Insurance contributions. Previously this accrual was not made in the accounts.

2. The Company now recognises the difference between the cash cost of its operating leases and their rental costs on a straight line basis over the lifetime of the leases. Previously this difference was between the cash cost of the operating leases and their rental costs on a straight line basis to the first lease break point. The difference is shown as "Operating lease adjustment" in the reconciliations below.

3. The Company now recognises equity instruments classified as debt at fair value at each balance sheet date, reflecting the change in fair value through the profit and loss account. Previously equity instruments classified as debt were stated at initial fair value, with a subsequent discount unwind being taken to the profit and loss account.

Restated Balance Sheet - Group

	31 March 2015 £'000	01 May 2014 £'000
Original Shareholders' Funds	1,697	687
Holiday Pay Accrual adjustment	(71)	(22)
Operating lease adjustment	(119)	-
Equity classified as debt adjustment	(5,528)	-
Restated Shareholders' Funds/(Deficit)	(4,021)	665

Restated Profit and Loss Account - Group

	11 months ended 31 March 2015 £'000
Original Profit/(Loss) on Ordinary Activities before Taxation	(822)
Holiday Pay Accrual adjustment	(49)
Operating Lease adjustment	(119)
Equity classified as debt adjustment	(5,528)
Restated Profit/(Loss) on Ordinary Activities before Taxation	(6,518)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2016

30. TRANSITION TO FRS 102 (continued)

Restated Balance Sheet - Company

	31 March 2015 £'000	01 May 2014 £'000
Original Shareholders' Funds	16,249	15,949
Operating lease adjustment	(119)	-
Intragroup loan restated at amortised cost	-	(1,214)
Equity classified as debt adjustment	(5,407)	-
Restated Shareholders' Funds	10,723	14,734

Restated Profit and Loss Account - Company

	11 months ended 31 March 2015 £'000
Original Profit/(Loss) on Ordinary Activities before Taxation	(1,531)
Operating lease adjustment	(119)
Intragroup loan restated at amortised cost	1,214
Equity classified as debt adjustment	(5,407)
Restated Profit/(Loss) on Ordinary Activities before Taxation	(5,843)