Node 4 Limited

Annual report and financial statements

for the year to 31 March 2019

Registered number 04759927



Node 4 Limited

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Node 4 Limited

Officers and professional advisors

Directors

Mr A Gilbert
Mr P Bryce
Mr L Keller

Registered office

Unit 1A-1B, Millennium Way
Pride Park
Derby
DE24 8HZ

Bankers

National Westminster Bank PLC
Derby City
Crompton House
Derwent Street
Derby
DE1 2ZG

Solicitors

Pinsent Masons LLP
3 Colmore Circus
Birmingham
B46BH

Independent auditors

PricewaterhouseCoopers LLP
Donington Court
Herald Way
East Midlands
DE74 2UZ

Node 4 Limited

Strategic report
for the year to 31 March 2019

The directors present their strategic report for the year to 31 March 2019.

Principal activities

The principal activity of the company is the provision of IT services.

Results and financial position

The company generated earnings before non-recurring costs, interest, taxation, depreciation and amortization (adjusted EBITDA) in the year to 31 March 2019 of £13,189 ,000 (*2018: £10,946,000*) and an operating profit of £7,407,000 (*2018: £7,140,000*) for the same year. The profit on ordinary activities before taxation for the year was £7,155 ,000 (*2018: £7,047,000*) resulting in the financial position at 31 March 2019 as set out on page 9.

Non-recurring costs of £989,000 *(2018: £287,000)* have arisen primarily in respect of the costs of potential acquisitions, strategic review, the integration of businesses and a bonus together with commercial settlement costs relating to prior years (*2018: integration of businesses and provisions in respect of trade debtors arising primarily from trading in earlier years*).

Business review

The business of the company is focused on the provision of IT services. The portfolio of services includes cloud, colocation, connectivity, collaboration and continuity. We believe that ownership of our infrastructure and a breadth of offer that enables us to provide a full end-to-end managed service to customers are key differentiators. In addition to offices in Reading, Nottingham and London, we own and manage high quality data centres located in Derby where are head office is located, Leeds and Northampton. Having completed expansion projects at two sites in recent years, across all sites we have a total colocation and cloud capacity of c1,500 racks with high levels of security and redundancy. Our facilities are ISO27001 accredited, they satisfy the security requirements for PCI compliance and the UK government Official requirement, they range up to Tier3+ standard and deliver an efficiency rating of PUE 1.2.

Our data centres are also home to our cloud infrastructure. Working with leading vendors Cisco, NetApp and VMware we have built a CMSP accredited enterprise-grade cloud infrastructure that offers scalable and resilient resources. We also deliver private cloud solutions with dedicated infrastructure, we bring together both elements in hybrid cloud solutions and can also offer hyperscaler environments, all with the aim of ensuring customers can deploy the right workload into the right environment.

Critical to being able to access this infrastructure is connectivity. The data centres are connected using our national Dense Wavelength Division Multiplexing (DWDM) network which includes points of presence in Manchester and London, as well as interconnects to major UK carriers and public cloud environments. This means we can provide the best options in terms of price and capacity, wherever a customer is located. We are an internet service provider and use access methods including ethernet, broadband and M2M (which uses the mobile 3G/4G network) to provide access into our national network. Our network seamlessly connects clients to SIP, voice, cloud and data centre solutions. We were also one of the first providers to implement a Software Defined Network (SDN) for our customers.

The collaborate part of the portfolio gives access to resilient cloud based tools that allow customers to stay securely connected and mobile in the fast paced environment of today.

Our continuity services comprise a full suite of end-to-end products to mitigate continuity and cyber security risks.

Around all these services we provide a complete managed service wrap for business critical systems including operating systems (Linux and Microsoft), software application stacks such as web and database services and dev-ops for application orchestration.

To meet increased demand for managed services the company has invested to further scale its operating platforms during FY19 including investing in market leading management and monitoring platforms Service Now and Science Logic, combined with additional staff recruitment and training.

FY19 also saw the launch of our N4Stack brand which incorporated the activities of the Onomi business acquired in May 2017 along with other public cloud focused offerings within the company. This division which encompasses database management, managed public cloud services, and dev-ops management, marks a key evolution in terms of our end-to-end hybrid cloud approach for customers.

We have a strong business culture that is built around working with our customers and becoming their trusted IT services provider. We believe in flexibility and view our customers as partners, aiming to provide the best customer experience. We pride ourselves on the satisfaction that our customers achieve whilst working with us.

Strategic report for the year to 31 March 2019 (continued)

The success of our business model is demonstrated by continued growth from existing clients and also the acquisition of new clients in FY19 which saw a new milestone in terms of business won with close to £11.5m of new annual recurring revenue secured ("ARR").

The business has steadily grown customer numbers and sales across the whole service portfolio, both organically and through acquisition. In 2014 and 2015 we acquired and integrated three companies to expand the range of services and expertise available to customers and to increase the geographical coverage of our resources. This trend continued with the acquisition of Onomi Limited in May 2017. Onomi Limited provides database services that are complementary to those already provided by the company.

Future developments

The company intends to maintain its track record of year on year growth into the future, leveraging the capacity available across its well invested data centres, network and cloud infrastructure, complemented by a comprehensive service portfolio to capitalise on the growing demand for outsourced IT infrastructure and associated managed services.

The company continues to follow the regionally focused business model that has been a key feature of the Node4 business success over the last decade and will continue to look for opportunities to further expand our geographic reach. In addition, we also continue to look for opportunities that further expand the range of value add services we can offer to our clients across the regions we operate in. This focus is evidenced by the acquisition noted below made post year end.

The company is well placed entering the new financial year (FY20) with a strong order book and a significant pipeline of opportunities. The company will be looking to leverage the significant investment made in FY19 in its core operating platforms to meet the increasing demand it is seeing for managed services from new and existing clients.

Acquisitions have formed a key part of our growth strategy in recent years which has continued post year end with the acquisition of 100% of the share capital of Ensco 1032 Limited and its wholly owned trading subsidiary Secura Hosting Limited (trading as "Secura") in May 2019 which further expanded the breadth and depth of Cloud hosting services offered by the group adding a market leading Virtual Private Cloud ("VPC") platform for the Software as a Service ("SaaS") vertical and growing managed Azure capability, whilst also further enhancing our operational presence in the South East with the addition of 35 staff. In addition, Secura's recently opened Manchester office provides a platform for expansion and customer acquisition in the North West market which has been a key target growth market for the group for some time. There are also significant opportunities to cross sell Node4 services, such as database and dev-ops management, into the Secura client base.

Key performance indicators (KPIs)

The company relies on various KPIs, which are regularly reviewed by the management team and board. The main KPIs are as follows:

- Sales activity, particularly in relation to growth in the key service areas. Key KPIs monitored are:
  - New business wins won;
  - New monthly recurring revenue (MRR) won; and
  - New business put-live.

  All were strong in the year, providing the platform for the reported sales growth.
- Cloud platform and data centre utilisation monitoring, which provides the trigger for further infrastructure investment.
- Gross margin by product category. Gross margin trends are monitored closely to confirm revenue and cost behaviour and develop action plans where necessary.
- Earnings before non-recurring costs, interest, taxation, depreciation and amortisation (adjusted EBITDA). This is the main financial performance measure for the company and is covered earlier above.

Principal risks and uncertainties

The directors consider the biggest risks to stem from the management of the growth of the business including integration of acquired businesses. In operational terms this risk manifests in areas such as employee and customer retention and the company strives to foster a culture and customer service ethos to mitigate this. Whilst not KPIs as such, the reasons for employee departures and customer terminations are collated and reviewed by management and the board.

Strategic report
for the year to 31 March 2019 (continued)

Financial risk management

In financial terms, the directors consider and manage the risks in the following ways:

Credit risk: The company policy in respect of credit risk is to require appropriate credits checks on all potential customers prior to sales being made. In addition, direct debit is stipulated as a preferred method for customer payment and a rigorous credit control policy is followed.

Liquidity and cash flow risk: The board regularly reviews the cash position and cash flow forecasts for the company. The company has a free cash balance and the group has committed bank facilities available to finance capital expenditure and working capital in pursuit of growth.

Interest rate risk: The parent company has purchased an interest rate cap to mitigate the risk of increases in interest rates.

Approved by the board of directors and signed on behalf of the board on 16 July 2019.

A Gilbert
Director

Node 4 Limited

Directors' report
for the year to 31 March 2019

The directors present their annual report and the audited financial statements of company for the year to 31 March 2019.

Directors

The directors who served throughout the year, and subsequently, are as follows:

Mr A Gilbert	
Mr P Bryce	
Mr R Baker	resigned 31 May 2018
Mr L Keller	appointed 31 May 2018

Dividends

The directors do not recommend the payment of a dividend *(2018: £nil)*.

Going concern

The directors have considered the trading performance of the company, together with the factors likely to affect its future development as well as its current liquidity position. The directors have reviewed the company's forecasts and likely future cash flows, taking into account the group's current net borrowings and uncommitted cash deposits.

Based on the available information on the future, the directors consider that the company has a diverse range of products and services and has the plans and resources to manage its business risks successfully and remain financially robust.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue operations for the foreseeable future. Accordingly, the going concern basis of preparation continues to be adopted in the financial statements.

Employees

Disabled applicants and existing disabled employees of the company are treated fairly and on terms comparable with those of other employees. Equally, employees who become disabled during their employment receive training, where necessary, in order to promote their ongoing career development.

Strategic report

The following items have been included within the strategic report on pages 2 to 4:

- Principal activities
- Results
- Business review
- Future developments and post balance sheet events
- Key performance indicators
- Financial risk management
- Principal risks and uncertainties

Directors' indemnities

The company maintained liability insurance for its directors and officers. This is a qualifying indemnity provision for the purposes of the Companies Act 2006, and was in place during the financial year up to the date of signing these financial statements.

Directors' report
for the year 31 March 2019 (continued)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' (FRS 102), 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;
- state whether applicable United Kingdom Accounting Standards comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; 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 auditors

In accordance with section 418 of the Companies Act 2006, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that:

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Approved by the board of directors and signed on behalf of the board on 16 July 2019.

A Gilbert
Director

Independent auditors' report to the members of Node 4 Limited

Report on the financial statements

Opinion

In our opinion, Node 4 Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year (the "year") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 March 2019; the statement of comprehensive income for the year to 31 March 2019, the statement of changes in equity for the year to 31 March 2019; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual report and financial statements other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Node 4 Limited (continued)

Report on the audit of the financial statements (continued)

Reporting on other information (continued)

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year to 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

David Teager (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
22 July 2019

Node 4 Limited

Statement of comprehensive income for the year to 31 March 2019

	Note	2019 £'000	2018 £'000
Turnover	5	**45,539**	39,115
Cost of sales		**(17,552)**	(14,961)
Gross profit		**27,987**	24,154
Administrative expenses		**(20,580)**	(17,014)
Operating profit	6	**7,407**	7,140
Interest receivable and similar income		**6**	-
Interest payable and similar expenses	7	**(259)**	(93)
Profit before taxation		**7,154**	7,047
Tax on profit	9	**(1,374)**	(1,388)
Profit for the financial year		**5,780**	5,659

The notes on pages 12 to 23 form part of these financial statements

Node 4 Limited

Balance sheet
as at 31 March 2019

	Note	2019 £'000	2018 £'000 restated*
Intangible assets	10	**6,830**	6,730
Tangible assets	11	**15,866**	13,469
Investments	12	**1,969**	1,969
		24,665	22,168
Current assets			
Inventories	13	**114**	104
Debtors	14	**13,640**	10,356
Cash at bank and in hand		**8,245**	3,436
		21,999	13,896
Creditors: amounts falling due within one year	15	**(10,441)**	(7,063)
Net current assets		**11,558**	6,833
Total assets less current liabilities		**36,223**	29,001
Creditors: amounts falling due after more than one year	16	**(3,271)**	(1,660)
Provisions for liabilities	17	**(475)**	(644)
Net assets		**32,477**	26,697
Capital and reserves			
Called up share capital	18	**1,308**	1,308
Profit and loss account	19	**31,169**	25,389
Total equity		**32,477**	26,697

*31 March 2018 fixed assets restated to show software separately in intangible fixed assets (see notes 10 and 11).

These financial statements on pages 9 to 23 were approved by the Board of Directors and authorised for issue on 16 July 2019.

Signed on behalf of the Board of Directors

A Gilbert
Director

Node 4 Limited **Company Registration Number: 04759927**

The notes on pages 12 to 23 form part of these financial statements

Statement of changes in equity for the year to 31 March 2019

	Called up share Capital £'000	Profit and loss account £'000	Total Equity £'000
At 1 April 2017	1,308	19,730	21,038
Profit and total comprehensive income for the financial year	-	5,659	5,659
At 31 March 2018	**1,308**	**25,389**	**26,697**
Profit and total comprehensive income for the financial year	-	5,780	5,780
At 31 March 2019	**1,308**	**31,169**	**32,477**

The notes on pages 12 to 23 form part of these financial statements

Notes to the financial statements for the year to 31 March 2019

1 General information

The company provides and sells cloud, colocation, connectivity, collaboration and continuity services. The company is a private company, limited by shares, incorporated, registered and domiciled in England. The address of the registered office is Unit 1A-1B, Millennium Way, Pride Park, Derby, DE24 8HZ

2 Statement of compliance

The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements are prepared on a going concern basis, under the historical cost convention and as modified by the recognition of certain financial assets and liabilities measured at fair value.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

Exemptions

The company is a wholly-owned subsidiary of Chiron Midco Limited and is included in its consolidated financial statements which are publicly available. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

The company has taken advantage of the exemption from preparing a cash flow statement, from disclosing key management personnel remuneration and from financial instruments disclosures as it is a qualifying subsidiary included in the publicly available consolidated financial statements of a parent company (note 24).

The company has taken advantage of the exemption under FRS 102 not to disclose transactions between wholly owned entities in the group. The company discloses transactions with related parties which are not wholly owned group entities.

Going concern

The directors have considered the trading performance of the company, together with the factors likely to affect its future development as well as its current liquidity position. The directors have reviewed the company's forecasts and likely future cash flows, taking into account current group net borrowings and uncommitted cash deposits.

Based on the available information on the future, the directors consider that the company has a diverse range of products and services and has the plans and resources to manage its business risks successfully and remains financially robust.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue operations for the foreseeable future. Accordingly, the going concern basis of preparation continues to be adopted in the financial statements.

Turnover

Turnover represents amounts derived from the provision of goods and services which fall within the principal activity of the company, after deduction of trade discounts and VAT.

Turnover from the supply of goods and services represents the value of goods delivered to the customer and services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due. Where a contract has only been partially completed at the balance sheet date, turnover represents the value of the service provided to date based on a proportion of the total contract value. 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. This is released to the profit and loss account as services are performed.

Notes to the financial statements for the year to 31 March 2019 (continued)

3 Summary of significant accounting policies (continued)

Employee benefits

The company operates a defined contribution pension scheme. Contributions are recognised in the profit and loss account in the year in which they become payable in accordance with the rules of the scheme.

Short term employee benefits including holiday pay are recognized as an expense in the period in which the service is rendered.

Research and development expenditure

All research costs are charged immediately to profit or loss. Costs incurred on development projects are recognised as intangible assets when they meet the requirements of FRS 102. Development costs that cannot be capitalised are charged to profit or loss in the period in which they occur.

Non-recurring items

The company classifies certain one-off charges or credits that have a material impact on the company's financial results as 'non-recurring' items. These are disclosed separately to provide further understanding of the financial performance of the company.

Taxation

The taxation expense or credit comprises current and deferred tax recognised in the profit for the financial year or in other comprehensive income or equity if it arises from amounts recognised in other comprehensive income or directly in equity. Current tax is provided at amounts expected to be paid (or recovered) in respect of the taxable profits for the period using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Intangible assets

On acquisition of a business or hive up of a business from a subsidiary undertaking, the excess of the fair value of the consideration over the fair values of the net assets acquired is recognised as goodwill. Such goodwill is capitalised and stated at historical cost less provisions for amortisation and any impairment. Goodwill arising on acquisition or hive up is amortised to the profit and loss account over its estimated life of ten years. Intangible assets are tested for impairment when an event that might affect asset values has occurred. Any such impairment in carrying value is written off to the profit and loss account immediately. Deferred tax is not provided in respect of goodwill and its amortisation.

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition or hive up of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets acquired as part of an acquisition are not recognised where they arise from legal or other contractual rights, and where there is no history of exchange transactions. Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Subsequent to initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment. Intangible assets are amortised on a straight line basis over their estimated useful lives.

Customer lists and related customer relationships are amortised over 10 years and capitalised software costs are amortised over 3 to 5 years.

Notes to the financial statements for the year to 31 March 2019 (continued)

3 Summary of significant accounting policies (continued)

Tangible assets

Tangible fixed assets are stated at cost less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset on a straight line basis over its expected useful life, as follows:

Asset class	Depreciation method rate
Leasehold improvements	Straight line basis over the remaining term of the lease
Office equipment	33⅓% straight line basis
Fixtures and fittings	20% straight line basis
Hosting equipment	20 or 33⅓% straight line
Motor vehicles	20% straight line basis

Investments

Investments are stated at cost less provisions for any impairment. Investments are tested for impairment when an event that might affect asset values has occurred.

Inventories

Inventories are valued at the lower of purchase cost and net realisable value, after due regard for obsolete and slow moving items. Net realisable value is based on selling price less anticipated costs to completion and selling costs.

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method. Cash and cash equivalents comprise cash held at bank which is available on demand.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is written off to the profit and loss account.

Financial liabilities

Basic financial liabilities, including trade and other payables, bank borrowings and loans from fellow group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires. Borrowings are initially stated at the fair value of the consideration received after deduction of wholly attributable issue costs. Issue costs are amortised to the profit and loss account over the estimated life of the relevant borrowings.

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments.

An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Where shares are issued, any component that creates a financial liability of the company is presented as a liability in the balance sheet. The corresponding dividends relating to the liability component are charged as interest expenses in the profit and loss account.

Notes to the financial statements for the year 31 March 2019 (continued)

3 Summary of significant accounting policies (continued)

Leasing and hire purchase commitments

Assets obtained under leases which result in the transfer to the company of substantially all the risks and rewards of ownership (finance leases) and hire purchase contracts are included in the balance sheet at the estimated present value of underlying rental payments and are depreciated in accordance with the policy above. Obligations under such agreements are included in creditors, net of finance charges allocated to future years. The finance element of the rental payments is charged to the profit and loss account over the period of the lease or hire purchase contract so as to produce a constant periodic rate of charge on the outstanding balance of the net obligation in each year.

Rentals paid under other leases (operating leases) are charged against income on a straight-line basis over the lease term.

Share capital

Financial instruments issued by the company are treated as equity only to the extent that they do not meet the definition of a financial liability. The company's ordinary shares are classified as equity instruments.

4 Critical accounting judgements and estimation uncertainty

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, not always equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful economic lives of tangible and intangible assets

The annual depreciation or amortisation charge for tangible and intangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See notes 10 and 11 for the carrying amount of fixed assets and note 3 for the useful economic lives for each class of assets.

The company uses an estimate for the useful life of goodwill and customer intangible assets and calculation of the amortisation charges in line with the nature of the businesses acquired. There is no current indication that the company's businesses will not continue to trade profitably although the life may differ from or be longer than the estimates used to amortise the assets.

Fair values and intangible assets on hive up of a business

Fair values are applied on the hive up of a business and assets from a subsidiary which involve a degree of judgement and estimation in particular in the identification and evaluation of intangible assets. The values are derived from the business cash flow forecasts and assumptions based on experience and factors relevant to the nature of the business activity.

5 Turnover

IT services is considered to be the only material class of business carried on by the company. An analysis of turnover by customer geographical location is given below:

	2019	2018
	£'000	£'000
United Kingdom	44,837	38,526
Rest of the World	702	589
	45,539	39,115

Notes to the financial statements for the year 31 March 2019 (continued)

6 Operating profit

Operating profit is stated after charging:	2019	2018
	£'000	£'000
Operating lease rentals:		
• Plant and machinery	**184**	158
• Property	**843**	824
Auditors' remuneration:		
• Audit of the company's annual statutory financial statements	**37**	32
• Tax compliance services	**-**	-
Inventory recognised as an expense	**1,704**	1,643
Impairment of trade debtors (primarily from prior year trading when they were initially expected to be recoverable)	**-**	99
Non-recurring settlement costs	**293**	-
Other non-recurring costs (including costs arising in respect of prior year events, potential acquisitions, strategic review and bonuses)	**696**	188
Depreciation of tangible assets	**3,491**	2,423
Amortisation of software assets	**517**	311
Amortisation of goodwill	**468**	468
Amortisation of customer intangible asset	**317**	317

In addition to those disclosed above, £nil *(2018: £35,000)* of auditors' remuneration in respect of assurance services has been capitalised and included in the cost of investments.

7 Interest payable and similar expenses

	2019	2018
	£'000	£'000
Interest on finance leases and similar hire purchase contracts	**259**	93

Notes to the financial statements for the year to 31 March 2019 (continued)

8 Information regarding directors and employees

	2019	2018
	£'000	£'000
Directors' remuneration – aggregate emoluments	539	483
Company pension contributions in respect of 3 (*2018: 3*) directors	2	1
Remuneration of the highest paid director:		
Aggregate emoluments	251	243
Company pension contribution	1	-

Average monthly number of persons employed	2019	2018
	Number	Number
Directors	3	3
Sales	83	69
Developers	5	4
Technical	122	112
Finance and administration	19	16
	232	204

Staff costs	2019	2018
	£'000	£'000
Wages and salaries	9,528	8,158
Social security costs	1,158	960
Other pension costs (note 21)	153	51
	10,839	9,169

Notes to the financial statements for the year to 31 March 2019 (continued)

9 Tax on profit

	2019	2018
	£'000	£'000
Current taxation		
United Kingdom corporation tax:		
Current year	1,579	1,498
Adjustments in respect of prior years	(36)	-
	1,543	1,498
Deferred taxation		
Origination and reversal of timing differences	(112)	(67)
Adjustments in respect of prior years	(51)	(43)
Effect of changes in tax rates	(6)	-
	(169)	(110)
Tax on profit	1,374	1,388

Factors affecting the tax charge for the year

Corporation tax on profit for the year is higher *(2018: higher)* than the standard rate of corporation tax in the UK of 19% *(2018: 19%)*.

The differences are reconciled below:

	2019	2018
	£'000	£'000
Profit before taxation	7,154	7,047
Corporation tax at standard rate of 19% *(2018: 19%)*	1,359	1,339
Factors affecting charge for the year:		
Disallowable expenses including goodwill amortisation	126	111
Additional research and development relief	(19)	(19)
Effect of differing deferred and corporation tax rates	(5)	-
Adjustments in respect of prior years	(87)	(43)
Tax on profit	1,374	1,388

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and the Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate of corporation tax to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Notes to the financial statements for the year to 31 March 2019 (continued)

10 Intangible assets

	Software*	Goodwill	Customer relationships	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2018 (restated)	1,017	4,680	3,168	8,865
Additions	1,402	-	-	1,402
At 31 March 2019	**2,419**	**4,680**	**3,168**	**10,267**
Accumulated amortisation				
At 1 April 2018 (restated)	311	1,025	799	2,135
Charge for the year	517	468	317	1,302
At 31 March 2019	**828**	**1,493**	**1,116**	**3,437**
Net book amount				
At 31 March 2019	**1,591**	**3,187**	**2,052**	**6,830**
At 1 April 2018 (restated)	706	3,655	2,369	6,730

*31 March 2018 restated to present the £706,000 of software net book value separately from tangible fixed assets.

Leased assets

Included within the net book value of software intangible fixed assets is £578,000 *(2018: £nil)* in respect of assets held under finance lease or similar hire purchase agreements. Depreciation for the year on these assets amounted to £95,000 *(2018: £nil)*.

Notes to the financial statements for the year to 31 March 2019 (continued)

11 Tangible assets

	Leasehold improve-ments	Fixtures and fittings	Office equipment (restated)	Motor vehicles	Hosting equipment (restated)	Total (restated)
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 April 2018	12,205	351	616	315	11,116	24,603
Additions	1,646	52	113	-	4,245	6,056
Disposals	(1)	-	(125)	(97)	-	(223)
At 31 March 2019	**13,850**	**403**	**604**	**218**	**15,361**	**30,436**
Accumulated depreciation						
At 1 April 2018	4,341	319	447	85	5,942	11,134
Charge for the year	1,162	16	51	50	2,212	3,491
Disposals	-	-	-	(55)	-	(55)
At 31 March 2019	**5,503**	**335**	**498**	**80**	**8,154**	**14,570**
Net book amount						
At 31 March 2019	**8,347**	**68**	**106**	**138**	**7,207**	**15,866**
At 1 April 2018	7,864	32	169	230	5,174	13,469

The amounts presented for office and hosting equipment at 31 March 2018 have been restated and the net book value reduced by £533,000 and £173,000 respectively to show the cost and accumulated depreciation for software assets separately in intangible fixed assets. There is no impact on net assets or the results for the prior year.

Leased assets

Included within the net book value of tangible fixed assets is £5,370,000 *(2018: £3,135,000)* in respect of assets held under finance lease or similar hire purchase agreements. Depreciation for the year on these assets amounted to £1,225,000 *(2018: £442,000)*.

12 Investments

	Investments in subsidiary undertakings £'000
Cost and net book value	
At 1 April 2018 and **at 31 March 2019**	**1,969**

The company holds all of the issued ordinary share capital in Onomi Limited, a company registered in England and Wales at Unit 1A-1B, Millennium Way, Pride Park, Derby, DE24 8HZ and which is a providers of IT services.

Notes to the financial statements for the year to 31 March 2019 (continued)

13 Inventories

	2019	2018
	£'000	£'000
Consumables and goods for resale	114	104

There is no significant difference between the replacement cost of goods for resale and their carrying value.

14 Debtors

Amounts falling due within one year	2019	2018
	£'000	£'000
Trade debtors	5,674	5,001
Amounts owed by group undertakings	6,956	4,399
Prepayments and accrued income	1,010	956
	13,640	10,356

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

15 Creditors: amounts falling due within one year

	2019	2018
	£'000	£'000
Trade creditors	2,619	2,905
Finance leases and similar hire purchase contracts	1,931	832
Amounts owed to group undertakings	1,775	789
Corporation tax	297	72
Other taxation and social security	845	839
Other creditors	43	58
Accruals and deferred income	2,931	1,568
	10,441	7,063

Obligations under finance lease and similar hire purchase contracts are secured on the specific assets to which the finance relates.

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and repayable on demand.

16 Creditors: amounts falling due after more than one year

	2019	2018
	£'000	£'000
Finance leases and similar hire purchase contracts	3,271	1,660

Obligations under finance lease and similar hire purchase contracts are secured on the specific assets to which the finance relates and are all due within 5 years.

Notes to the financial statements for the year to 31 March 2019 (continued)

17 Provisions for liabilities

	Deferred taxation
	£'000
At 1 April 2018	644
Credit for the year	(169)
At 31 March 2019	**475**

Deferred taxation liabilities/(assets) provided for in full in the financial statements are as follows:

	2019	2018
	£'000	£'000
Accelerated capital allowances	**162**	255
Other timing differences	**(42)**	(26)
In respect of customer intangible assets	**355**	415
	475	644

Approximately £150,000 *(2018: £150,000)* of the deferred tax liability is expected to reverse in the next year.

18 Called up share capital

	Allotted, called up and fully paid 2019	Allotted, called up and fully paid 2018	**Allotted, called up and fully paid 2019**	Allotted, called up and fully paid 2018
	£'000	£'000	**Number of shares**	Number of shares
Ordinary shares of £1 each	**1,308**	1,308	**1,308,025**	1,308,025

Called up share capital represents the nominal value of the shares issued.

Each ordinary share entitles the holder to one vote at shareholder meetings and all ordinary shares rank equally in relation to distributions of income or capital.

19 Profit and loss account

The profit and loss account reserve represents cumulative net profits from the statement of comprehensive income. Movements on the reserve are set out in the statement of changes in equity.

20 Contingent liabilities

The company has provided a guarantee, secured by fixed and floating charges over its assets, in respect of the net bank and other secured loan borrowings of its parent company Chiron Bidco Limited, which at 31 March 2019 amounted to £56,000,000 *(2018: £56,000,000)*.

21 Pension schemes

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £153 ,000 *(2018: £51,000)*. Contributions totalling £3,000 *(2018: £15,000)* were due to the scheme at the end of the year.

Notes to the financial statements for the year to 31 March 2019 (continued)

22 Financial commitments

At 31 March 2019, the company had commitments under non-cancellable operating leases as set out below:

	Land and buildings	**Other**	Land and buildings	Other
	2019	**2019**	2018	2018
Payments falling due:	**£'000**	**£'000**	£'000	£'000
Within one year	**885**	**141**	849	121
In two to five years	**2,687**	**118**	2,733	135
More than five years	**1,375**	**-**	1,843	-
	4,947	**259**	5,425	256

The company had capital commitments of £nil at 31 March 2019 *(2018: £nil)*.

23 Related party transactions

During the year, the company was involved in the following related party transactions.

G&W Properties Ltd

Mr A Gilbert, a director of the company, is a director of and shareholder in G&W Properties Ltd, the owner of property occupied by the company. During the year, the company incurred rental charges from G&W Properties Ltd of £624,000 *(2018: £570,000)*. At the balance sheet date, £nil was due to G&W Properties Ltd *(2018: £nil)* and an amount of £125,000 *(2018: £124,000)* of rent charged was held in prepayments.

Alpha Golf Aviation LLP

Mr A Gilbert, a director of the company, is a director of and shareholder in Alpha Golf Aviation LLP. During the year, the company incurred business travel expenses from Alpha Golf Aviation LLP of £10,750 *(2018: £6,000)*. At the balance sheet date, £nil was due to Alpha Golf Aviation LLP *(2018: £nil)*.

Bowmark Capital

Funds owned by Bowmark Capital own ordinary shares in the group and in the ordinary course of the company's IT services business, the customer base and turnover includes amounts for services to other companies or groups where Bowmark Capital manages majority holdings made by its funds. The aggregate amount of these sales included in turnover is £1,464,000 *(2018: £810,000)*.

Chiron Topco Limited

Consideration was payable to the vendors of Onomi Limited in the prior year ended 31 March 2018 with a fair value of £650,000 and included in the cost of investment for this subsidiary. This was treated as an amount payable to Chiron Topco Limited, the ultimate parent company and settled the consideration of £650,000 payable for the issue of preference shares in Chiron Topco Limited.

£68,000 *(2018: £50,000)* of operating expenses were also paid by the company in the year ended 31 March 2019 on behalf of Chiron Topco Limited and £35,000 *(2018: £42,000)* of group relief was payable resulting in a balance at 31 March 2019 of £609,000 *(2018: £642,000)* owed to Chiron Topco Limited.

24 Post balance sheet event

On 14 May 2019, the company acquired 100% of the share capital of Ensco 1032 Limited, and its wholly owned trading subsidiary Secura Hosting Limited (trading as "Secura") for total consideration of £29.4 million. Of this amount £16.9 million was paid on completion, with the remaining amounts payable based on trading performance for the three years to June 2021. This has been funded from group banking facilities.

25 Controlling party and consolidated financial statements

Node 4 Holdings Limited is the immediate parent company and Chiron Midco Limited is the only group company which prepares publicly available consolidated financial statements which include the company. Copies of the Chiron Midco Limited consolidated financial statements can be obtained from Unit 1A-1B, Millennium Way, Pride Park, Derby, DE24 8HZ.

Chiron Topco Limited is the ultimate parent company and no party has a controlling beneficial interest in the company. Bowmark Capital manages the interest of the investing Bowmark funds, which held the majority of the shares in the group as of 31 March 2019, and was represented on the group board.