Company Registration No. 3908235

SMART421 LIMITED

Annual Report and Financial Statements

for the year ended 31 March 2014

SMART421 LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

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SMART421 LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P Simpson
W Halbert

COMPANY SECRETARY

K Smith

REGISTERED OFFICE

37 Carr Lane
Hull
HU1 3RE

BANKERS

Lloyds TSB
49 Howardsgate
Welwyn Garden City
Herts
AL8 6BA

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Benson House
33 Wellington Street
Leeds
LS1 4JP

The directors present their strategic report and the audited financial statements of the company for the year ended 31 March 2014. These financial statements are prepared under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

PRINCIPAL ACTIVITIES

The principal activity of the company is the provision of IT services specialising in the delivery of innovative IT solutions, the design, build and operation of complex integration projects and application service management. The company retains a broad base of blue chip clients across a range of industry sectors. The company is incorporated and domiciled in the UK.

RESULTS

The profit for the financial year attributable to shareholders amounts to £2,069,000 (2013: £1,666,000).

REVIEW OF THE BUSINESS

The year ended 31 March 2014 has been Smart421 Limited's most successful year to date. Revenues increased for the fifth year in a row to £30.0m (2013: £27.8m). Cloud related consultancy and managed services continue to be a particular growth area. The company remains a Premier Consulting Partner of Amazon Web Services (AWS), the highest level of consultancy partnership in the AWS partner programme. Revenues generated through sales opportunities referred in by fellow subsidiaries of the Group also rose again from £5.6m to £8.3m.

Staff costs are the principal cost of sale of the business. The company continues to concentrate on managing its staff resources efficiently and has maintained an average fee earning utilisation rate in excess of 90%. The company also has significantly below industry average rates of staff turnover which enables experience and knowledge to be retained in the business. This in turn has helped the company to broadly maintain its operating margins despite a very competitive market place.

The company has made some targeted investments in its management and support functions to facilitate future growth but has managed to keep non fee earning costs as a percentage of annual sales at a similar level to the prior year.

Restructuring costs of £177,000 (2013: £64,000) were recognised in the year ended 31 March 2014 arise as a result of organisational changes.

KEY PERFORMANCE INDICATORS

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Revenue	30,005	27,763
Profit before taxation	2,729	2,227
Operating profit (%)	8.2%	7.0%

YEAR END POSITION

As in previous years the company has not distributed any retained profits and has increased its balance sheet net assets to £17.7m at 31 March 2014. Of this, £2.7m was held in cash or cash equivalents. The strength of the company's balance sheet enables it to bid for and win multi million pound development projects as well as long term managed service contracts.

STRATEGIC OBJECTIVES

The company's strategic objectives are aligned with KCOM Group PLC and can be found in KCOM Group PLC's annual report and financial statements on pages 14 and 15.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks associated with the company are considered to be the security and resilience of IT, network and data, the reliance on key third party suppliers, business continuity, customer services and delivery and recruitment and retention of staff. Further details of the risks can be found on pages 18 to 19 of the Strategic Report in the annual report and financial statements of the KCOM Group PLC.

Approved by the board, and signed on their behalf

P Simpson
Director
23 December 2014

SMART421 LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2014

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2014. These financial statements are prepared under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

These are the first financial statements of the company prepared in accordance with FRS 101 and the company's date of transition into FRS 101 is 1 April 2012.

FUTURE DEVELOPMENTS

The Directors are focused on maintaining the company's profitable growth. For further details of future developments, see pages 12 to 15 in the KCOM Group PLC annual report and financial statements.

DIVIDENDS

The directors have paid no ordinary dividends (2013: £Nil) during the year. The directors do not recommend the payment of a dividend (2013: £Nil).

FINANCIAL RISK MANAGEMENT

In the normal course of business, the company is exposed to certain financial risks, principally interest rate risk, liquidity risk and credit risk. These risks are managed by the central treasury function of KCOM Group PLC, in conjunction with the company, in accordance with risk management policies that are designed to minimise the potential adverse effects of these risks on financial performance. The policies are reviewed and approved by the Board of KCOM Group PLC.

Further details of the financial risk management policies can be found on page 16 of the Strategic Report in the annual report and financial statements of the KCOM Group PLC.

EMPLOYEES

The company encourages its employees to be aware of the financial and economic factors affecting the performance of the company. A consultative committee has been established which meets regularly.

Employment policies are designed to provide equal opportunities irrespective of colour, ethnic or national origin, nationality, sex, religion, material or disabled status. Full consideration is given to the employment, training and career development of disabled persons.

Health and safety is an integral part of good business management, and well established systems of safety management are in place throughout the company. The company's employment policy is in accordance with that of the Group, further details of which can be found on page 27 of the Strategic Report in the annual report and financial statements of KCOM Group PLC.

DIRECTORS

The directors who served during the year and up to the date of signing the financial statements are listed on page 1.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, Directors' 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of 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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES (CONTINUED)

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

So far as each director is aware, there is no relevant audit information of which the company's auditors are unaware; and each director 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.

INDEPENDENT AUDITORS

A resolution has been passed to maintain PricewaterhouseCoopers LLP as auditors until such time as the Board decides otherwise.

Approved by the board, and signed on their behalf

P Simpson
Director

23 December 2014

SMART421 LIMITED
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SMART421 LIMITED

Report on the financial statements

Our opinion

In our opinion, Smart421 Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Smart421 Limited's financial statements comprise:

- the Statement of Financial Position as at 31 March 2014;
- the Income Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

Opinion on other matters 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.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 4 and 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

SMART421 LIMITED
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SMART421 LIMITED

What an audit of financial statements involves

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

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

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

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

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Ian Morrison

Ian Morrison (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
23 December 2014

SMART421 LIMITED
INCOME STATEMENT
For the year ended 31 March 2014

	Notes	2014 £'000	2013 £'000
Revenue	2	**30,005**	27,763
Operating expenses	3	**(27,550)**	(25,821)
Operating profit	3	**2,455**	1,942
Analysed as:			
EBITDA before exceptional items		**2,741**	2,128
Exceptional items	4	**(177)**	(64)
Depreciation of property, plant and equipment	9	**(109)**	(122)
Finance income	6	**274**	285
Profit on ordinary activities before taxation		**2,729**	2,227
Tax on profit on ordinary activities	7	**(660)**	(561)
Profit for the financial year		**2,069**	1,666

There are no material differences between the profit on ordinary activities before taxation and the profit for the financial year for 2013 under FRS 101 and that presented in the 2013 financial statements under UK GAAP.

The notes on pages 11 to 19 are an integral part of these financial statements.

SMART421 LIMITED
STATEMENT OF FINANCIAL POSITION
As at 31 March 2014

	Notes	2014 £'000	2013 £'000	2012 £'000
Fixed assets				
Property, plant and equipment	9	**156**	186	230
Deferred tax assets	14	**366**	303	144
		522	489	374
Current assets				
Trade and other receivables due within one year	10	**6,707**	7,298	6,392
Trade and other receivables due after more than one year	11	**13,866**	10,645	10,114
Cash and cash equivalents		**2,695**	2,645	2,021
		23,268	20,588	18,527
Creditors – amounts falling due within one year	12	**(5,857)**	(5,624)	(5,609)
Net current assets		**17,411**	14,964	12,918
Total assets less current liabilities		**17,933**	15,453	13,292
Creditors – amounts falling due after more than one year	13	**(268)**	(268)	(268)
Net assets		**17,665**	15,185	13,024
Equity				
Ordinary shares	15	**2,000**	2,000	2,000
Share premium account		**540**	540	540
Other reserves		**(34)**	(34)	(34)
Retained earnings		**15,159**	12,679	10,518
Total shareholders' funds		**17,665**	15,185	13,024

The notes on pages 11 to 19 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 23 December 2014. They were signed on its behalf by:

P Simpson

Director

SMART421 LIMITED
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2014

	Share capital £'000	Share premium account £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 April 2012 (under UK GAAP and FRS 101)	**2,000**	**540**	**(34)**	**10,518**	**13,024**
Profit for the financial year	—	—	—	1,666	1,666
Total comprehensive income for the year	—	—	—	**1,666**	**1,666**
Historical tax on share schemes	—	—	—	87	87
Employee share schemes	—	—	—	408	408
At 31 March 2013 (under FRS 101)	**2,000**	**540**	**(34)**	**12,679**	**15,185**
Profit for the financial year	—	—	—	2,069	2,069
Total comprehensive income for the year	—	—	—	**2,069**	**2,069**
Employee share schemes	—	—	—	411	411
At 31 March 2014	**2,000**	**540**	**(34)**	**15,159**	**17,665**

The notes on pages 11 to 19 are an integral part of these financial statements.

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year.

Basis of accounting

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006 (the Act) as appropriate to companies using FRS101. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The company is a qualifying entity for the purposes of FRS 101. Note 17 gives details of the company's ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

These are the first financial statements of the company prepared in accordance with FRS 101. The company's date of transition to FRS 101 is 1 April 2012. The company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the company in these financial statements.

There is no material difference on the profit or equity at 1 April 2012, 31 March 2013 and 31 March 2014.

FRS 101 sets out amendments to EU-adopted IFRS that are necessary to achieve compliance with the Act and related Regulations. There has been no impact of these amendments to the company's previously adopted accounting policies in accordance with UK GAAP on the shareholders' equity at the date of transition and as at 31 March 2013 and as the profit for the year ended 31 March 2013.

The disclosure exemptions adopted by the company in accordance with FRS 101 are as follows:

a) Statement of cash flows
b) Capital risk management
c) Related party transactions
d) Share options
e) Accounting policies issued but not yet effective

The financial statements have been prepared under the historical cost convention modified by the valuation of derivative financial statements. A summary of the more important accounting policies is set out below.

The preparation of financial statements in conformity with FRS 101 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

New and amended standards adopted by the company

FRS101 Reduced Disclosure Framework has been early adopted and the standard has been applied for the first time for the financial year beginning 1 April 2013.

There are no other IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 April 2013 that have had a material impact on the group.

Going concern

The company meets its day-to-day working capital requirements through its bank facilities. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current facilities. After making enquires, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

1. ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any provision for impairment. 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 so as to write off the cost of assets to residual values on a straight-line basis over the assets' useful estimated lives as follows:

Depreciation is provided so as to write off the cost of assets to residual values on a straight line basis over the assets' useful estimated live as follows:

Vehicles, other apparatus and equipment - 3 to 10 years

Trade receivables

Trade receivables are recognised initially at fair value and measured subsequently at amortised cost, using the effective interest method, less any impairment. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts written off are credited against operating expenses in the income statement.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, short-term deposits and other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

Creditors

Creditors are recognised initially at fair value and measured subsequently at amortised cost using the effective interest method.

Share capital

Ordinary shares are classified as equity.

Leases

Rentals payable under operating leases are charged in the income statement on a straight-line basis over the lease term.

Revenue recognition

Revenue excludes value added tax and comprises the value of services provided. Revenue from IT services is recognised in the company's income statement at the time the services are performed. In respect of long terms contracts, revenue represents the value of work performed in the period, including amounts not invoiced based on their stage of completion.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide better understanding of the financial performance of the company. They are material items of income or expense that have been shown separately due to the significance of their nature or amount. In particular costs associated with organisational restructuring, costs and provisions associated with onerous contracts, profits or losses on the sale of an operation and one-off pension costs and credits are treated as exceptional items.

1. ACCOUNTING POLICIES (CONTINUED)

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax payable is currently based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and/or items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised generally for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced or increased to the extent that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly to equity. In this case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Pensions

The company provides pension arrangements to employees through a defined contribution arrangement. For defined contribution schemes the amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Share-based payments

The company has applied the requirements of IFRS 2 Share-based payments. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 April 2005.

The ultimate parent undertaking, KCOM Group PLC, issues equity-settled share-based payments to certain employees. Other equity-settled share-based payments arise where payment for goods and services is settled in shares or other equity instruments.

Equity-settled employee schemes, including employee share options, discretionary long term incentive schemes and save as you earn schemes, provide employees the option to acquire shares of KCOM Group PLC. Employee share options and long term incentive schemes are generally subject to performance or service conditions.

The fair value of equity-settled share-based payments relating to Smart421 Limited employees is measured at the date of grant and charged to the profit and loss account over the period during which performance or service conditions are required to be met, or immediately where no performance or service criteria exist. The fair value of equity-settled share-based payments granted is measured using either the Black-Scholes or Monte Carlo model, depending on the terms under which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of employee share options that vest, except where forfeiture is only due to market based performance criteria not being met.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

1. ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

The ultimate parent undertaking, KCOM Group PLC, also operates a Share Incentive Plan (SIP) under which employees have the option to purchase shares in KCOM Group PLC each month and offers employees free matching and partnership shares on a sliding scale of between 1:3 to 2:1. The free shares relating to employees of KCH (Holdings) Limited are recognised as an expense over the period of any applicable service condition, or immediately when no service condition exists.

2. REVENUE

Revenue is attributable to the principal continuing activity of the company of providing IT services, and is generated wholly within the UK and Europe.

	2014	2013
	£'000	£'000
Sale of goods	**472**	103
Provision of services	**29,533**	27,660
	30,005	27,763

3. OPERATING PROFIT

Operating profit is stated after charging:

	Notes	**2014**	2013
		£'000	£'000
Contractor fees		**12,306**	10,378
Wages and salaries		**9,478**	9,251
Social security costs		**960**	997
Other pension costs		**490**	456
Share based payments	8	**467**	465
Operating lease rentals		**148**	149
Auditors' remuneration for the audit of the financial statements		**16**	16
Depreciation of property, plant and equipment	9	**109**	122
Group management recharge		**899**	946

Certain fees for non-audit services have been borne by the ultimate parent company, KCOM Group PLC. It is not practicable to ascertain what proportion of such fees relates to the company.

4. EXCEPTIONAL ITEMS

	2014	2013
	£'000	£'000
Restructuring costs	**177**	64

Restructuring costs arise as a result of organisational changes.

5. EMPLOYEES AND DIRECTORS

The average monthly number of employees (including executive directors) was:

	Number of employees	
	2014	2013
IT services	**100**	110
Management, support, sales and marketing	**43**	45
	143	155

At 31 March 2014, Mr P Simpson and Mr W Halbert were directors of KCOM Group PLC, and other fellow subsidiary companies. Mr P Simpson received total emoluments of £759,000 (2013: £1,040,000) from KCOM Group PLC but it is not practicable to ascertain the proportion of his emoluments that specifically relate to the company. In addition, Mr P Simpson is a member of the Kingston Group Personal Pension Plan, a defined contribution scheme. During the financial year, KCOM Group PLC made contributions of £49,000 on behalf of Mr P Simpson (2013: £51,000).

5. EMPLOYEES AND DIRECTORS (CONTINUED)

Mr W Halbert received total emoluments of £495,000 (2013: £4,791,000) from KCOM Group PLC but it is not practicable to ascertain the proportion of his emoluments that specifically relate to the company. Mr W Halbert has elected not to be a member of any company pension scheme. Instead he received cash payments in the year totalling £66,000 (2013: £66,000).

6. FINANCE INCOME

	2014 £'000	2013 £'000
Interest receivable from group undertakings	**274**	285

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

The charge based on the profit for the year comprises:

	2014 £'000	2013 £'000
UK corporation tax:		
– payment for group relief	**723**	634
Total current tax	**723**	634
UK deferred tax:		
Origination and reversal of timing differences in respect of:		
– profit for the year	**(89)**	(69)
– adjustment in respect of prior years	**(1)**	(4)
– change in rate reflected in the deferred tax asset	**27**	—
Total deferred tax	**(63)**	(73)
Total taxation charge for the year	**660**	561

Factors affecting tax charge for the year:

	2014 £'000	2013 £'000
Profit before taxation	**2,729**	2,227
Profit before taxation at the standard rate of corporation tax in the UK of 23% (2013: 24%)	**628**	534
Effects of:		
– permanent differences	**6**	31
– adjustments relating to prior year current and deferred tax	**(1)**	(4)
– change in rate reflected in the deferred tax asset	**27**	—
Total taxation charge for the year	**660**	561

Factors affecting the current and future tax charges

As a result of the change in the UK main corporation tax rate from 23% to 20% that was enacted substantively at the balance sheet date and that became effective from July 2013, the relevant deferred tax balances have been remeasured. The UK main corporation tax rate became 21% on 1 April 2014 before it will reduce to 20% on 1 April 2015.

8. SHARE-BASED PAYMENTS

The Company participated in two share-based payment schemes during the year ended 31 March 2013, the Share Incentive Plan (SIP) and Smart421 Incentive Scheme, all of which are operated by the Company's ultimate parent undertaking, KCOM Group PLC. The Company recognised a total charge of £467,000 (2013: £465,000) in the year relating to share-based payment transactions issued after 7 November 2002. Details of each of the schemes are provided below:

Share Incentive Plan (SIP)

The SIP is open to all employees and offers partnership, matching and free shares (the basis depends on the individual's contribution into the scheme) in the ultimate parent undertaking, KCOM Group PLC. No performance criteria are attached to these matching shares other than an employee must remain in employment for five years from the date of grant to be able to have their free and matching shares. In 2013/14, 113,352 matching shares were granted during the year for KCH (Holdings) Limited employees and a charge of £48,000 (2013: £47,000) was recognised for SIP.

	Number	Weighted average exercise price (pence)
Outstanding at the beginning of the year	590,807	Nil
Granted during the year	113,352	Nil
Lapsed during the year	(34,245)	Nil
	669,914	Nil

Smart421 Incentive Scheme

The Smart421 Incentive Scheme is an equity-settled share based payment scheme open to senior management in the Smart421 brand. The awards were granted at nil cost on 1 August 2011 and vested dependent on specific performance conditions over a three year performance period. In 2013/14, a charge of £418,000 (2013: £418,000) was recognised by the Company.

	Number	Weighted average exercise price (pence)
Outstanding at the beginning and the end of the year	1,500,000	Nil

The awards have been valued using a Black Scholes model.

The weighted average assumptions used during the year are as follows:

Share price at date of grant (pence)	84
Exercise price (pence)	Nil
Expected volatility (%)	50
Risk free rate (%)	2.00

9. PROPERTY, PLANT AND EQUIPMENT

	Vehicles, Other Apparatus And Equipment £'000	Total £'000
Cost		
At 1 April 2013	963	963
Additions	79	79
Disposals	(72)	(72)
At 31 March 2014	**970**	**970**
Accumulated depreciation		
At 1 April 2013	777	777
Charge for the year	109	109
Disposals	(72)	(72)
At 31 March 2014	**814**	**814**
Net book value		
At 31 March 2014	**156**	**156**
At 31 March 2013	186	186

10. TRADE AND OTHER RECEIVABLES DUE WITHIN ONE YEAR

	2014 £'000	2013 £'000
Trade debtors	**4,126**	5,333
Amounts owed by group undertakings	**672**	404
Prepayments and accrued income	**1,909**	1,561
	6,707	7,298

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

11. TRADE AND OTHER RECEIVABLES DUE AFTER MORE THAN ONE YEAR

	2014 £'000	2013 £'000
Amounts owed by group undertakings	**13,866**	10,645

Amounts owed by group undertakings are unsecured and are repayable on demand. There are no formal arrangements for the repayment of amounts owed by group undertakings greater than one year. However, they have been confirmed as not due for repayment within one year. Interest at market rates is charged on amounts due to group undertakings due after more than one year, except for amounts due to dormant entities where nil interest is charged.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £'000	2013 £'000
Trade creditors	**1,466**	1,415
Amounts owed to group undertakings	**959**	2,314
Other taxation and social security	**196**	537
Other creditors	—	16
Accruals and deferred income	**3,236**	1,342
	5,857	5,624

Amounts due to group undertakings are unsecured, bear no interest and are repayable on demand.

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2014 £'000	2013 £'000
Amounts owed to group undertakings	**268**	268

Amounts owed to group undertakings are unsecured and are repayable on demand. There are no formal arrangements for the repayment of amounts owed by group undertakings greater than one year. However, none of the amounts are due within one year. Interest at market rates is charged on amounts due to group undertakings due after more than one year, except for amounts due to dormant entities where nil interest is charged.

14. DEFERRED TAX ASSET

	Total £'000
At 1 April 2013	303
Credited to income statement (note 7)	63
At 31 March 2014	**366**

Deferred tax comprises:

	2014 £'000	2013 £'000
Property, plant and equipment	**101**	124
Other timing differences	**265**	179
	366	303

Deferred tax assets have been recognised where there is sufficient available evidence that suitable taxable profits will arise against which these assets are expected to reverse. There are no unrecognised deferred tax assets in either year.

15. SHARE CAPITAL

Alloted, called-up and fully paid	2014 £'000	2013 £'000
2,000,001 (2013: 2,000,001) ordinary shares of £1 each	**2,000**	2,000

16. GUARANTEES AND FINANCIAL COMMITMENTS

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

Land and buildings	**2014 £'000**	2013 £'000
Leases which expire:		
- within one year	**69**	—
- between one and two years	**—**	213
	69	213

Plant and equipment	**2014 £'000**	2013 £'000
Leases which expire:		
- within one year	**—**	2
- between one and two years	**4**	30
- between two and five years	**22**	—
	26	32

None of the Company's lease arrangements include any contingent rent payments and there are no renewal or purchase options or escalation clauses.

There are also no restrictions imposed by the company's lease arrangements.

17. PARENT UNDERTAKING AND CONTROLLING PARTY

The company's immediate parent undertaking is Smart421 Technology Group Limited. Copies of Smart421 Technology Group Limited's financial statements can be obtained from 37 Carr Lane, Hull, HU1 3RE.

The parent undertaking of the smallest and largest group of undertakings for which group financial statements are drawn up and of which the company is a member is KCOM Group PLC, registered in England and Wales. KCOM Group PLC is also the company's ultimate controlling party. Copies of KCOM Group PLC's annual report and financial statements can be obtained from 37 Carr Lane, Hull, HU1 3RE.