

Mastek (UK) Limited
Annual Report for the year ended 31 March 2018

Registered Number 02731277

Mastek (UK) Limited

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Mastek (UK) Limited

Strategic report for the year ended 31 March 2018

Business Review and future developments

The results for year ended 31 March 2018 and the financial position of the Company are shown in the financial statements.

The Company is a leading IT player providing enterprise solutions to government, retail and financial services organizations worldwide. It has been at the forefront of technology and has made significant investments in creating a practice and capability, which along with proven methodologies and processes, increase IT value generation to its customers through onsite and offshore deliveries. It is a software solutions provider which designs and develops high impact applications to enable companies to solve their complex, mission critical business problems with innovative solutions that sustain and grow their business. The company provides IT solutions under various service lines – Application Development, App Support and Maintenance, BI & Analytics, Assurance and Testing and Consulting.

During the year, the company embarked on a transformation programme to galvanise the business. The transformation was aimed at increasing our sales activity, improving our customer focus and having clearer service offerings to the market. While the transformation is not yet complete, substantial progress has been made and both new structures and behaviours are embedded.

On a like for like basis, the financial results have been excellent with a revenue growth of 33% in comparison with the prior year. We have also been able to manage costs and therefore overall profitability has improved. We concluded the year with a strong business outlook for the coming year.

Our business continues to be focussed on government, retail and financial sectors. All three sectors demonstrated significant growth and potential through the year. Brexit is one of the largest government IT programmes ever to get off the ground. It requires huge changes and a myriad of new systems. According to GlobalData, there are at least 27 core systems across central government that will need to be reconfigured or rewritten as a result of changes to immigration, borders and customs controls. Mastek holds successful long term client relationship with the Home Office and National Health Service (NHS), which are expected to have a bigger share of Brexit IT projects while other key sectors continues to maintain significant spend in line with CY2018. Our retail and financial sectors recovered from the Brexit referendum impact and showed robust potential. To mitigate the Brexit business risk, the company is pursuing a strategic and account approach to gain longer term commitment from clients and strengthen presence with Government departments which is potentially counter-cyclical.

The company has the capability of delivering large complex programs in an agile manner and helping clients to cut cost and time in delivery. It is registered with the G Cloud and the GDS frameworks, which has helped create a good pipeline of opportunities. The direct customers in the government sector see value in their association with Mastek and on the back of this foundation, the company is confident of creating new opportunities in 2018/19. On the Retail and Financial sector front, it has successfully opened new accounts and look forward for growing this business at a steady pace. To enable further growth, we will continue our investment in sales and marketing in all the three sectors to step up our growth activities.

Mastek (UK) Limited

Key Performance Indicators

KPI	2018	(Restated) 2017
Turnover increase/ (decrease)	33.4%	0.9%
Operating profit margin	14.9%	5.7%
Staff Turnover ratio	11.1%	12.8%
Client Satisfaction	97.5%	96.4%

Principal Risks and Uncertainties

The principle risks are as follows:

- Cost pressures impacting our clients' ability to further invest in IT solutions. The Company has operational improvement and Cost Containment Initiatives to provide IT solutions in a cost efficient manner. It further has the benefit of being very well entrenched with many of its customers, involved in their critical and strategic initiatives. Therefore, client related risks are mitigated to an extent.
- Potential risk of delays and change in policy direction due to the EU Referendum can impact the growth in the government sector. The company is strengthening its presence by pursuing a strategic account approach. Further the Company is extending its reach into wider vertical markets and is increasing its annuity business.

We have a stable team and a good pipeline, order backlog and customer base. We are confident that the team will have another successful year of operations.

Approved on behalf of the Board

P Koti
13/06/18

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P Koti – Director

Mastek (UK) Limited

Directors' Report for the year ended 31 March 2018

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2018.

Company Registration Number

The company is registered in England and Wales under company number 02731277.

Business Review and Future Developments

A review of the business and future developments of the company is included in the strategic report.

Results and Dividends

The company's profit for the financial year was £7,534,804 (2017: £2,233,309 (restated)).

The Directors recommended the payment of an interim dividend of £500,000 (2017: £290,000). The Directors recommended a final dividend of £700,000 (2017: Nil).

Financial Risk Management

The company's operations expose it to a variety of financial risks that include the effects of changes in credit risk, liquidity risk and interest rate risk. The company has in place a risk management programme that seeks to the limit adverse effects on the financial performance of the company. The company does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

Given the size of the company, the directors have not delegated responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

Credit Risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the board.

Liquidity Risk

The company does not have any borrowing facility from any bank, and the Directors consider the company has sufficient available funds for current operations and any planned expansions.

Interest Rate Cash Flow Risk

The company has interest bearing assets and non-interest bearing liabilities. Interest bearing assets are only cash balances, all of which earn interest at variable rates.

Mastek (UK) Limited

Directors' report for year ended 31 March 2018 (continued)

Directors

The Directors who held office during the year under review and to the date of this report were:

Directors

R Venkataraman

P Koti

S Sandilya (resigned on 30 June 2017)

A Desai (resigned on 30 June 2017)

A Kanagat (resigned on 30 June 2017)

K Bogg (appointed on 1 June 2017)

J Owen (appointed on 1 June 2017)

R Smith (appointed on 15 August 2017)

S Agarwal – Company Secretary

Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole. Communication with all employees continues through the house newspaper and newsletters, satisfaction surveys, briefing groups and the distribution of the annual report.

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 United Kingdom Accounting Standards and applicable law (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.

Mastek (UK) Limited

Directors' report for year ended 31 March 2018 (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

In the case of each of the persons who are directors at the time when this report is approved, the directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Appointment of auditors

The Auditors, Grant Thornton UK LLP, were appointed as auditors during the year and will be proposed for reappointment at the forthcoming Annual General Meeting.

Approved on behalf of the Board

Prahlaad Koti
13/06/18

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P Koti – Director

Mastek (UK) Limited

Independent Auditor's report to the members of Mastek (UK) Limited

Report on the financial statements

Opinion

We have audited the financial statements of Mastek (UK) Limited (the 'company') for the year ended 31 March 2018 which comprise the statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 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.

Basis for opinion

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

Who we are reporting to

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

Conclusions relating to going concern

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

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

Mastek (UK) Limited

Independent Auditor's report to the members of Mastek (UK) Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

Matters on which we are required to report by exception

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

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

Mastek (UK) Limited

Independent Auditor's report to the members of Mastek (UK) Limited (continued)

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on pages 5 and 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

GRANT THORNTON UK LLP

Pinkesh Patel
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Reading

13/6/2018

Mastek (UK) Limited

Statement of comprehensive income for the year ended 31 March 2018

	Notes	2018 £	(Restated) * 2017 £
Turnover	1	62,093,520	46,542,861
Cost of sales		<u>(44,997,674)</u>	<u>(35,867,280)</u>
Gross profit		17,095,846	10,675,581
Administrative expenses		<u>(7,839,823)</u>	<u>(8,001,178)</u>
Operating profit	3	9,256,023	2,674,402
Interest receivable and similar income	5	<u>54,373</u>	<u>159,314</u>
Profit on ordinary activities before taxation		9,310,396	2,833,716
Tax on profit on ordinary activities	6	<u>(1,775,592)</u>	<u>(600,407)</u>
Profit for the financial year		7,534,804	2,233,309
Other comprehensive income for the year			
Items that may be reclassified subsequently to the statement of comprehensive income:			
Investment in equity instrument - net change in fair value of available for sale assets		(2,836,827)	(454,594)
Total other comprehensive income		<u>(2,836,827)</u>	<u>(454,594)</u>
Total comprehensive income for the year		4,697,977	1,778,715

All results relate to continuing operations.

The notes on pages 14 to 32 form part of these financial statements.

* Refer to Note No. 22 for details of the restatement of 2017.

Mastek (UK) Limited

Balance sheet as at 31 March 2018

	Notes	2018 £	(Restated)* 2017 £
Fixed Assets			
Tangible assets	7	96,741	87,110
Investments	8	27,455,096	27,024,608
		<u>27,551,837</u>	<u>27,111,718</u>
Current Assets			
Debtors	9	15,368,516	10,287,219
Cash at bank and in hand	16	6,185,830	4,187,102
		<u>21,554,346</u>	<u>14,474,321</u>
Creditors: Amounts falling due within one year	10	(11,694,415)	(8,019,300)
Net current assets		<u>9,859,931</u>	<u>6,455,021</u>
Total assets less current liabilities		<u>37,411,768</u>	<u>33,566,739</u>
Net assets		<u>37,411,768</u>	<u>33,566,739</u>
Capital and Reserves			
Called up share capital	13	200,000	200,000
Capital contribution		695,959	695,959
Retained earning		21,788,864	15,454,060
Available for sale reserve		14,332,921	17,169,748
Excess tax benefit on share based payments		394,024	46,972
Total equity		<u>37,411,768</u>	<u>33,566,739</u>

*Refer to Note 22 for details of the restatement of 2017

The financial statements were approved by the Board of Directors on 13/6/18 and were signed on its behalf by:

Prahelad Koti
13/6/18

P Koti – Director

Registered number: 02731277

The notes on pages 14 to 32 form part of these financial statements.

Mastek (UK) Limited

Statement of changes in equity for the year ended 31 March 2018

	Called up share capital	Capital contribution	Excess tax benefits on share based payments	Available for sale reserve	Retained earnings	Total equity
	£	£	£	£	£	£
Balance as at 1 April 2016	200,000	695,959	-	-	13,688,167	14,584,126
Restatement – Refer Note 22	-	-	-	17,624,342	(177,416)	17,446,926
Balance as at 1 April 2016 (Restated)	200,000	695,959	-	17,624,342	13,510,751	32,031,052
Profit for the financial year	-	-	-	-	2,233,309	2,233,309
Net change in fair value of available for sale assets	-	-	-	(454,594)	-	(454,594)
Total comprehensive income for the year	-	-	-	(454,594)	2,233,309	1,778,715
Excess tax benefits on share based payments	-	-	46,972	-	-	46,972
	-	-	46,972	(454,594)	2,233,309	1,825,687
Transactions with owners, recognised directly in equity						
Dividends	-	-	-	-	(290,000)	(290,000)
Total transactions with owners, recognised directly in equity	-	-	-	-	(290,000)	(290,000)
Balance as at 31 March 2017	200,000	695,959	46,972	17,169,748	15,454,060	33,566,739
Profit for the financial year	-	-	-	-	7,534,804	7,534,804
Net change in fair value of available for sale assets	-	-	-	(2,836,827)	-	(2,836,827)
Total comprehensive income for the year	-	-	-	(2,836,827)	7,534,804	4,697,977
Excess tax benefits on share based options	-	-	347,052	-	-	347,052
	-	-	347,052	(2,836,827)	7,534,804	5,045,029
Transactions with owners, recognised directly in equity						
Dividends	-	-	-	-	(1,200,000)	(1,200,000)
Total transactions with owners, recognised directly in equity	-	-	-	-	(1,200,000)	(1,200,000)
Balance as at 31 March 2018	200,000	695,959	394,024	14,332,921	21,788,864	37,411,768

The notes on pages 14 to 32 form part of these financial statements.

Mastek (UK) Limited

Cash flow statement for the year ended 31 March 2018

	Notes	2018 £	2017 £
Net cash generated from operating activities	14	7,960,888	1,770,830
Taxation paid		(1,308,247)	500,864
Cash flow from financing activities	15	(1,145,627)	(224,097)
Cash flow from investing activities	15	<u>(3,351,836)</u>	<u>(3,315,674)</u>
Increase/(decrease) in cash in the year		2,155,178	(1,268,077)
Cash and cash equivalents at the beginning of the year		4,187,102	5,361,768
Exchange gain on cash and cash equivalent		(156,450)	93,411
Cash and cash equivalents at the end of the year		<u>6,185,830</u>	<u>4,187,102</u>

The notes on pages 14 to 32 form part of these financial statements.

Mastek (UK) Limited

Notes to the financial statements for the year ended 31 March 2018

1. Accounting policies

Mastek (UK) Limited is a private limited company and is incorporated and domiciled in the UK. The address of its registered office is Pennant House, 2 Napier Court, Napier Road, Reading, RG1 8BW.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

The Company's ultimate parent undertaking, Mastek Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Mastek Limited are publicly available from its registered office, 804/805 President House, C.N. Vidyalaya, Near Ambawadi Circle, Ahmedabad – 380 006. Therefore the company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- IFRS 7, 'Financial Instruments: Disclosures';
- Comparative information requirements in respect of tangible assets and investments;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel;
- The requirements to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- Capital management disclosure
- Certain share based payment disclosure
- Disclosures in relation to impairment of assets

The parent company (Mastek Limited) runs a Stock Option scheme under which it grants options to the employees of the subsidiary company (Mastek UK Limited). The Company had previously in error accounted for share based payments at intrinsic value instead of fair value per IFRS 2. The Company has corrected the error and restated opening balance as at April 1, 2016 to give effect to fair value accounting and restated the Stock option charge for the Financial year ended March 31, 2017. (Refer Note 22)

In addition, previously the Company had recorded its investment in the Majesco US at cost in error. The investment is an available for sale asset and should have been measured at fair value, with gains and losses being recognised in other comprehensive income and reported within the available for sale reserve within equity. Consequently, the company has applied a prior year adjustment to the opening balance of the available for sale reserve as at April 1, 2016 and restated the financial year ended 31 March 2017. Financial assets designated at fair value through other comprehensive income (FVTOCI) have been fair valued at each reporting date with a corresponding recognition in other comprehensive income. (Refer Note 22)

Foreign currency transactions of the Company are accounted for at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities are translated at the rate prevailing on the Balance Sheet date whereas non-monetary assets and liabilities are translated at the rate prevailing on the date of the transaction. Gains and losses resulting from the settlement of foreign currency monetary items and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Mastek (UK) Limited

Notes to the financial statements for the year ended 31 March 2018

1. Accounting policies

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

Accounting convention

These financial statements are prepared on the going concern basis, under the historical cost convention, in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

Going concern

The company meets its day-to-day working capital requirements through its cash reserves and borrowings. The current economic conditions continue to create uncertainty particularly over the level of demand for the company's products. 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 cash reserves and borrowings. After making enquiries, 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.

Turnover

Turnover represents the value of goods and services provided in the year, and is stated exclusive of value added tax. Revenue derived from long term contracts is recognised by reference to a contract's stage of completion at the balance sheet date, only when the outcome of the contract can be measured reliably and it is probable that the economic benefits will flow to the company. Any losses on contracts are recognised when foreseen. The stage of completion of a contract is determined by using the percentage of completion method, based on the proportion of costs incurred for work performed to date, compared to the estimated total cost of the contract.

Revenues and costs relating to time and materials contracts are recognized as the related services are rendered.

Turnover relates to one class of business, all within the UK.

Tangible fixed assets

Tangible fixed assets are stated at historical purchase cost less accumulated depreciation. Depreciation is provided at the following annual rates in order to write off the cost of each asset less the estimated residual value, over its estimated useful life.

Fixtures and fittings	-	20% on straight-line basis
Computer equipment	-	50% - 100% on straight-line basis

Long term contracts

Debtors include amounts recoverable on contracts, which are stated at cost plus attributable profit to the extent that such profit is reasonably certain and after making provision for any foreseeable losses in completing contracts (as noted in the turnover accounting policy above), less payments received on account.

Mastek (UK) Limited

Notes to the financial statements for the year ended 31 March 2018

1. Accounting policies

Cost comprises the direct costs of providing the goods and services, together with directly attributable overheads. Payments on account represent the excess of amounts billed over that recognised.

Deferred and Current Tax

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to a liability to pay more taxation in the future, or a right to pay less taxation in the future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised are not discounted.

Current tax is measured by the amount of tax expected to be paid to the taxation authorities on the taxable profits after considering tax allowances and exemptions and using applicable tax rates and laws.

Share Based Payment

The parent company (Mastek Limited) runs a stock option scheme under which it grants options to the employees of the subsidiary company (Mastek UK Limited). Stock options are vested over the period of time as stated in the terms of the option. Once vested, employees are entitled to receive shares of the parents at the time of exercise of options. The scheme is identified as Equity settled and the parent determines the compensation cost based on the fair value method which is cross charged to Mastek UK Limited. The company records the fair value as a cost to profit & loss with a corresponding adjustment to capital contribution. However, since the parent recharge the fair value to the company, the corresponding amount is reduced from the capital contribution resulting in a net nil impact to capital contribution.

Leasing commitments

Rental paid under operating leases are charged to the profit and loss account as incurred.

Provisions

Provisions are recognised when the company has a present obligation as a result of past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed regularly and are adjusted where necessary to reflect the current best estimates of the obligation.

Holiday pay

The employees of the Company are also entitled for other long-term benefit in the form of compensated absences as per the policy of the Company. Employees are entitled to accumulate leave balance up to the upper limit as per the Company's policies which can be carried forward perpetually. Leave encashment for employees gets triggered on an annual basis, if the accumulated leave balance exceeds the upper limit of leave. Further, at the time of retirement, death while in employment or on termination of employment, leave encashment vests equivalent to the salary payable for number of days of accumulated leave balance. Liability for such benefits is provided on the basis of actuarial valuations, as at the Balance Sheet date, carried out by an independent actuary. The actuarial valuation method used by independent actuary for measuring the liability is the projected unit credit method.

Mastek (UK) Limited

Notes to the financial statements for the year ended 31 March 2018

1. Accounting policies (continued)

Research & Development credit

Research and Development credit are recognised only to the extent there is reasonable assurance that the related conditions will be met and amounts will be received.

Pensions

The company operates a defined contribution pension scheme. Contributions payable for the year are charged to the profit and loss account.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors:

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. Provision is made when there is objective evidence that the Company will not be able to recover balances in full, with the charge being recognised in the profit and loss account. Balances are written off when the probability of recovery is assessed as being remote.

Trade and other creditors:

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalent:

Cash and cash equivalents include cash in hand, demand deposits with banks and other short term highly liquid investments with original maturities of three months or less.

Derivative financial instruments

The company does not use any derivative financial instruments and hence its financial assets and financial liabilities are accounted for at cost as described above.

Consolidated financial statements

The accounts contain information about the company as an individual company and do not contain consolidated financial information as parent of a group. The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated accounts as it and its subsidiary undertakings are included by full consolidation in the consolidated accounts of Mastek Limited, a company registered in India. The accounts of Mastek Limited are publicly available.

Mastek (UK) Limited

Notes to the financial statements for the year ended 31 March 2018

1. Accounting policies (continued)

Investments

The investments are recognized at fair value on initial recognition and subsequently it is measured at fair value through other comprehensive income if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Further, in cases where the Company has made an irrevocable election based on its business model, for its investment, which are classified as equity instruments, the subsequent changes in fair value are recognised in OCI.

Available for sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company's available for sale financial assets is the equity investment in MajescoMastek – a listed entity.

Available for sale financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the available for sale reserve within equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss. For available for sale equity investments impairment reversals are not recognised in profit loss and any subsequent increase in fair value is recognised in other comprehensive income.

Investments in subsidiaries are held at historical cost less any applicable provision for impairment.

Impairment

Non Financial Instrument

Intangible assets and property, plant and equipment are evaluated for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. In such cases, the recoverable amount is determined for the Cash Generating Unit to which the asset belongs.

If such assets are considered to be impaired, the impairment to be recognized in the Statement of Comprehensive Income measured by the amount by which the carrying value of the assets exceeds the estimated recoverable amount of the asset. An impairment loss is reversed in the statement of Comprehensive Income if there has been a change in the estimates used to determine the recoverable amount. The carrying amount of the asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortization or depreciation) had no impairment loss been recognised for the asset in prior years.

Capital Management

The Company policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The company monitors the return on capital as well as the level of dividends on its equity shares. The company objective when managing capital is to maintain an optimal structure so as to maximize shareholder value.

Mastek (UK) Limited

Reserves

Share Premium: Amount received (on issue of shares) in excess of the par value has been classified as share premium.

Excess tax benefits from share-based options: Future tax benefits expected to arise from difference in tax base and accounting base as per tax laws of the respective countries where the company operates.

Retained Earnings: Retained earnings comprises of the prior year's undistributed earnings after taxes.

Available for sale reserve: changes in fair value of available for sale financial assets

Mastek (UK) Limited

Notes to the financial statements for the year ended 31 March 2018

2. Staff costs

	2018	2017
	£	£
Wages and salaries	19,022,479	15,996,718
Social security costs	1,945,383	1,707,943
Other pension costs (Note 18)	132,459	119,731
	<u>21,100,321</u>	<u>17,824,392</u>

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

	2018	2017
	Number	Number
Administrative and consultants	371	317
Directors	3	3
	<u>374</u>	<u>320</u>

3. Operating profit

	2018	2017
	£	£
The operating profit is stated after charging:		
Other operating leases	177,475	53,681
Depreciation – owned assets	74,890	69,352
Exchange Loss / (Gain)	156,451	(93,411)
Services provided by the Company's Auditor		
– fees payable for the audit	25,700	60,000
– fees payable for other services	-	27,900

Mastek (UK) Limited

Notes to the financial statements for the year ended 31 March 2018

4. Directors' emoluments

	2018 £	2017 £
Aggregate emoluments	801,444	598,860
Pension contributions to money purchase schemes	47,159	37,120
	<u>848,603</u>	<u>635,980</u>
The number of Directors to whom retirement benefits were accruing was as follows:	Number	Number
Money purchase schemes	1	1
Within the year, no director exercised share options (2017 - Nil).		
	£	£
Information regarding the highest paid Director is as follows:		
Aggregate emoluments	318,784	172,065
Pension contributions to money purchase schemes	16,867	27,873
	<u>335,651</u>	<u>199,938</u>

During both current and prior years, the highest paid Director did not exercise share options.

5. Interest receivable and similar income

	2018 £	2017 £
Bank interest	22,796	35,694
Interest on loan to subsidiary	31,577	30,209
Exchange gain	-	93,411
	<u>54,373</u>	<u>159,314</u>

Mastek (UK) Limited

Notes to the financial statements for the year ended 31 March 2018

6. Taxation

1. Analysis of tax charge in the year:

	2018	Restated 2017
	£	£
Current Tax:		
UK Corporation tax on profits for the year	1,816,976	593,247
Adjustment in respect of prior year	-	8,783
	<u>1,816,976</u>	<u>602,030</u>
Deferred Tax:		
Origination and reversal of timing differences	2,249	(1,623)
Share based payments	(43,633)	-
Tax on profit on ordinary activities	<u>1,775,592</u>	<u>600,407</u>

b) Factors affecting the tax charge for the year:

The tax assessed for the year is different to the standard rate of UK Corporation tax of 19% (2017: 20%) and the differences are explained below:

	2018	2017
	£	£
Profit on ordinary activities before tax	9,310,396	2,833,716
Profit on ordinary activities before tax at 19% (2017: 20%)	1,768,974	566,743
Effects of:		
- Expenses not deductible for tax purposes	6,618	30,111
- Capital allowances for period in excess of depreciation	(2,248)	(3,607)
- Adjustments to tax charge in respect of previous period	-	8,783
- Deferred tax credit	2,248	(1,623)
Total current tax charge for the year	<u>1,775,592</u>	<u>600,407</u>

c) Factors that may affect future charges:

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 on 26 October 2015 and Finance Bill 2017 on 7 September 2017. These include reductions to the main rate to reduce the rate to 19% from 1 April 2018 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.

Mastek (UK) Limited

Notes to the financial statements for the year ended 31 March 2018

7. Tangible fixed assets

	Fixtures and fittings £	Computer Equipment £	Total £
Cost:			
At 1 April 2017	230,310	397,298	627,608
Additions	19,335	65,186	84,521
At 31 March 2018	249,645	462,484	712,129
Depreciation:			
At 1 April 2017	202,964	337,534	540,498
Charge for the year	11,787	63,103	74,890
At 31 March 2018	214,751	400,637	615,388
Net Book Value:			
At 31 March 2018	34,894	61,847	96,741
At 31 March 2017	27,346	59,764	87,110

8. Fixed asset investments

	Restated £
Cost:	
At 1 April 2017 [Refer Note 22]	27,024,608
Additions	3,267,315
Revaluation of Majesco Investment	(2,836,827)
At 31 March 2018	27,455,096
Net Book Value:	
At 31 March 2018	27,455,096
At 31 March 2017 [Restated]	27,024,608

Directly held Investments	Country of incorporation	At 31 March 2018		(Restated) At 31 March 2017	
		Holding %	NBV £	Holding %	NBV £
MajescoMastek	USA	13.8%	18,029,603	13.8%	20,866,430
Digility Inc.	USA	100%	6,497,207	100%	3,237,559
IndigoBlue Consulting Limited	UK	100%	2,928,286	100%	2,920,619
Indirectly held Investments					
TalsTech LLC	USA	100%	\$9,246,988	100%	\$9,246,988
Trans American Information Systems Inc.	USA	100%	\$3,003,012	100%	\$3,003,012

Additions represent £3,259,648 in relation to share capital of Digility Inc and £7,667 of additional Investment in IndigoBlue Consulting Limited.

Mastek (UK) Limited

Notes to the financial statements for the year ended 31 March 2018

9. Debtors: amounts falling due within one year

	Restated	
	2018	2017
	£	£
Trade debtors	8,857,683	4,839,054
Amounts due from group undertakings	514,927	571,559
Prepayments and accrued income	4,164,946	4,612,621
Deferred Taxation (Refer Note 11)	428,329	39,893
Amounts recoverable on contracts	1,402,631	224,092
	<u>15,368,516</u>	<u>10,287,219</u>

Amounts due from group undertakings are interest free, unsecured and repayable on demand.

10. Creditors: amounts falling due within one year

	Restated	
	2018	2017
	£	£
Trade creditors	660,251	648,302
Amounts due to group undertakings	2,466,597	1,120,297
Social security and other taxes	2,595,578	1,233,148
Corporation taxation	1,010,100	501,369
Accruals and deferred income	4,961,889	4,516,184
	<u>11,694,415</u>	<u>8,019,300</u>

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

11. Deferred taxation

The full assets for deferred tax has been recognised in the accounts as follows:

	£
At 1 April 2017 (Restated)	39,893
Credited to the profit and loss account	41,384
Tax benefit from share based payments	347,052
At 31 March 2018	<u>428,329</u>

The deferred taxation Assets comprises:

	Restated	
	2018	2017
	£	£
Accelerated capital allowances	(9,327)	(7,079)
Tax benefit from share based payments	437,656	46,972
At 31 March 2018	<u>428,329</u>	<u>39,893</u>