

Registration number: 07573953

Paragon Internet Group Limited

Annual report and financial statements

for the year ended 31 December 2016



Paragon Internet Group Limited

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Paragon Internet Group Limited

Company information

Directors R Winslow
J Shutler

Company secretary J Shutler

Registered office 5th floor
The Shipping Building
Old Vinyl Factory
Hayes
Middlesex
UB3 1HA

Auditor Deloitte LLP
Reading, United Kingdom

Paragon Internet Group Limited

Strategic report

The directors present their strategic report for the year ended 31 December 2016.

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Principal activity

The company provides web hosting and network services and issues internet domain names to customers ranging from private individuals to large corporations.

Business review

The company made numerous acquisitions during the year.

On 3 February 2016 the Company acquired 100% of the share capital of 5Quidhost Limited for £872,000.

On 1st April 2016 the Company acquired 100% of the share capital of Swarma Limited for £3,260,000.

On 1st April 2016 the Company acquired 100% of the share capital of Dataflame Internet Services Limited for £726,000.

On 26th April 2016 the Company acquired 100% of the share capital of ElasticHosts Limited for £3,605,000.

On 31 July 2016 the company received dividends of £336,000 from Compila Limited, £1,099,000 from 5Quidhost Limited, £4,511,000 from Swarma Limited and £676,000 from Dataflame Limited in relation to the hive up of the trade and assets of these subsidiaries.

The results for the year ended 31 December 2016 and the financial position of the company at that date are set out on pages 8 and 9 of the financial statements.

Results and dividends

The profit for the year after taxation amounted to £213,000 (2015: loss of £530,000).

The directors do not recommend the payment of a dividend (2015 - £nil).

Key performance indicators

The company has financial KPIs which it monitors on a regular basis at board level and, where relevant, at business unit management meetings as follows:

| | Year ended 31 December 2016 £'000 | Year ended 31 December 2015 £'000 |
|---|--|--|
| Revenue | 11,348 | 7,022 |
| Gross profit | 8,810 | 5,101 |
| Gross profit margin | 77.6% | 72.6% |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) and exceptional items | 4,751 | 1,283 |

Principal risks and uncertainties

Financial risk management objectives and policies

Senior management are aware of their responsibility for managing risks within their business units. Each business unit head reports to the board on the status of these risks through management reports. Risk is regularly reviewed at board level to ensure that risk management is being implemented and monitored effectively. The board's policy is to ensure that the business units are empowered to run their business effectively and appropriately, bearing in mind the requirements for timely decision-making and commercial reality. Through management reports, risks are highlighted and monitored to identify potential business risk areas and to quantify and address the risk wherever possible.

Paragon Internet Group Limited

Strategic report (continued)

Commercial and general risk

Standard form contracts are provided for commercial use and to assist the commercial function to negotiate within approved parameters. Insurance policies are regularly reviewed to ensure these are adequate, appropriate and in line with the nature, size and complexity of the business.

Credit risk

The majority of the company's customers pay in advance for services. Where services are supplied without advance payment, a credit review of the customer is performed when the order is received and subsequently on a periodic basis.

Liquidity risk

The company regularly forecasts cash flow to ensure that sufficient cash is available from trading for future expenses and capital expenditure.

Going concern

The company is profit making in the current year and has net current liabilities and net assets. In assessing whether the going concern basis is appropriate, the directors take into account all available information about the future, which is at least, but is not limited to, 12 months from the date of approval of these financial statements. The directors have performed this review at a company level and have also performed a review for the entire group as disclosed in the accounts of the ultimate parent company, Host Europe Holdings Limited.

In making this conclusion, the directors have considered the letter of support the company received from Host Europe Holdings Limited and the current level of economic uncertainty. The directors have a reasonable expectation that despite the current economic uncertainty the company has adequate resources to continue in operational existence for the foreseeable future.

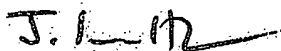
Thus they continue to adopt the going concern basis in preparing these financial statements.

Further details on the adoption of the going concern basis can be found in note 3 to the financial statements.

Future developments

The company plans to continue its existing activities.

Approved by the Board on 29 September 2017 and signed on its behalf by:



J Shutler
Director

Paragon Internet Group Limited

Directors' report

The directors present their annual report on the affairs of the company, together with the financial statements and auditor's report, for the year ended 31 December 2016.

Directors

The directors, who served throughout the year except as noted, were as follows:

| | | |
|------------|--------------------------|-----------------------------|
| J Shutler | (resigned 14 July 2016) | (re-appointed 06 July 2017) |
| R Winslow | (appointed 06 July 2017) | |
| J Wong | (appointed 14 July 2016) | (resigned 11 July 2017) |
| S de Lemos | (resigned 24 July 2017) | |
| A J Smith | (resigned 11 July 2017) | |

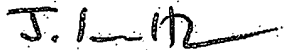
Auditor

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

- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and
- they 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.

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

Approved by the Board on 29 September 2017 and signed on its behalf by:



J Shutler
Director

Paragon Internet Group Limited

Directors' responsibilities statement

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

Company law requires the directors to prepare such financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has 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.

Independent auditor's report to the members of Paragon Internet Group Limited

We have audited the financial statements of Paragon Internet Group Limited for the year ended 31 December 2016 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and the related notes set out on pages 12 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework.

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

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement (set out on page 4), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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. In addition, we read all the financial and non-financial information in the annual report 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.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its results 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.

Opinion on other matter prescribed by the Companies Act 2006

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

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

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 any material misstatements in the Strategic Report and the Directors' Report.

**Independent auditor's report to the members of Paragon Internet Group Limited
(continued)**

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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.



.....
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom

Date: 21 September 2017

Paragon Internet Group Limited

Income Statement For the year ended 31 December 2016

| | Note | 2016 £ 000 | 2015 £ 000 |
|--------------------------------------|------|-------------------|---------------------|
| Revenue | 5 | 11,348 | 7,022 |
| Cost of sales | | <u>(2,538)</u> | <u>(1,921)</u> |
| Gross profit | | 8,810 | 5,101 |
| Administrative expenses | | <u>(14,489)</u> | <u>(5,624)</u> |
| Income from Investments | | <u>6,622</u> | <u>-</u> |
| Operating income /(loss) | | 943 | (523) |
| Interest payable and similar charges | 10 | <u>(661)</u> | <u>(183)</u> |
| Profit / (Loss) before tax | 6 | 282 | (706) |
| Tax on loss | 11 | <u>(69)</u> | <u>176</u> |
| Profit / (Loss) for the year | | <u>213</u> | <u>(530)</u> |

The above results were derived from continuing operations.

Paragon Internet Group Limited

**Statement of comprehensive income
For the year ended 31 December 2016**

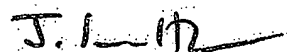
| | 2016 | 2015 |
|--|--------------|--------------|
| | £ 000 | £ 000 |
| Profit for the year | 213 | (530) |
| Exchange translation differences | (68) | - |
| Total comprehensive income for the year | 145 | (530) |

Paragon Internet Group Limited

Balance sheet as at 31 December 2016

| | Note | 2016 £ 000 | 2015 £ 000 |
|---|------|-----------------|----------------|
| Fixed assets | | | |
| Intangible assets | 13 | 13,412 | 4,886 |
| Tangible fixed assets | 14 | 3,355 | 2,504 |
| Investments in subsidiaries | 15 | 3,605 | - |
| | | <u>20,372</u> | <u>7,390</u> |
| Current assets | | | |
| Debtors: amounts falling due within one year | 16 | 2,094 | 931 |
| Cash at bank and in hand | | 1,042 | 430 |
| | | <u>3,136</u> | <u>1,361</u> |
| Creditors: amounts falling due within one year | 17 | (19,433) | (4,386) |
| Net current liabilities | | <u>(16,297)</u> | <u>(3,025)</u> |
| Total assets less current liabilities | | <u>4,075</u> | <u>4,365</u> |
| Creditors: amounts falling due after more than one year | 18 | (174) | (315) |
| Provision for liabilities | 19 | (652) | (946) |
| Net assets | | <u>3,249</u> | <u>3,104</u> |
| Capital and reserves | | | |
| Called-up share capital | 20 | 999 | 999 |
| Retained earnings | 20 | 2,250 | 2,105 |
| Total shareholder's funds | | <u>3,249</u> | <u>3,104</u> |

The financial statements of Paragon Internet Group Limited (registration number: 07573953) were approved by the Board and authorised for issue on 29 September 2017. They were signed on its behalf by:



J Shutler
Director

Paragon Internet Group Limited

Statement in changes of equity For year ended 31 December 2016

| | Called-up share capital £ 000 | Retained earnings £ 000 | Total £ |
|-----------------------------------|-------------------------------------|-------------------------------|--------------|
| At 1 January 2015 | <u>999</u> | <u>2,635</u> | <u>3,634</u> |
| Loss for the year | - | (530) | (530) |
| Total comprehensive income | <u>-</u> | <u>(530)</u> | <u>(530)</u> |
| At 31 December 2015 | <u>999</u> | <u>2,105</u> | <u>3,104</u> |
| Profit for the year | - | 213 | 213 |
| Other comprehensive income | - | (68) | (68) |
| Total comprehensive income | <u>-</u> | <u>145</u> | <u>145</u> |
| At 31 December 2016 | <u>999</u> | <u>2,250</u> | <u>3,249</u> |

Paragon Internet Group Limited

Notes to the financial statements For year ended 31 December 2016

1. General information

Paragon Internet Group Limited (the company) is a private company limited by shares incorporated in England and Wales and domiciled in the United Kingdom under the Companies Act.

The address of its registered office is:

5th floor
The Shipping Building
Old Vinyl Factory
Hayes
Middlesex
UB3 1HA

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

2. Adoption of new and revised Standards

Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

| | |
|---|--|
| Amendments to IAS 1 <i>Disclosure Initiative</i> | <ul style="list-style-type: none">• The Company has adopted the amendments to IAS 1 <i>Disclosure Initiative</i> for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.• The adoption of these amendments has not resulted in any impact on the financial performance or financial position of the Company. |
| Amendments to IAS 16 and IAS 38 <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> | <ul style="list-style-type: none">• The Company has adopted the amendments to IAS 16 and IAS 38 <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> for the first time in the current year. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:<ul style="list-style-type: none">• a) when the intangible asset is expressed as a measure of revenue; or• b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.• As the Company already uses the straight-line method for depreciation and amortisation for its property, plant and equipment and intangible assets, respectively, the adoption of these amendments has had no impact on the Company's financial statements. |

Paragon Internet Group Limited

Notes to the financial statements (continued) For year ended 31 December 2016

2 Adoption of new and revised Standards (continued)

Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year (continued)

| | |
|---|---|
| <p>Amendments to IAS 27 <i>Equity Method in Separate Financial Statements</i></p> | <ul style="list-style-type: none"> • The Company has adopted the amendments to IAS 27 <i>Equity Method in Separate Financial Statements</i> for the first time in the current year. The amendments focus on separate financial statements and allow the use of the equity method in such statements. Specifically, the amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements: • at cost; • in accordance with IFRS 9 (or IAS 39 for entities that have not yet adopted IFRS 9); or • using the equity method as described in IAS 28 <i>Investments in Associates and Joint Ventures</i>. • The same accounting must be applied to each category of investments. • The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it should account for the change from the date when the change in status occurs. • The adoption of the amendments has had no impact on the Company's financial statements as the Company accounts for investments in subsidiaries and associates at cost and is not an investment entity. |
| <p><i>Annual Improvements to IFRSs 2012-2014 Cycle</i></p> | <ul style="list-style-type: none"> • The Company has adopted the amendments to IFRSs included in the <i>Annual Improvements to IFRSs 2012-2014 Cycle</i> for the first time in the current year. • The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead. • The adoption of these amendments has had no effect on the Company's financial statements. |

Paragon Internet Group Limited

Notes to the financial statements (continued) For year ended 31 December 2016

3. Accounting policies

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.

Basis of accounting

The company was exempt from audit under section 477 of the Companies Act 2006 in the prior year.

The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

Summary of disclosure exemptions

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, presentation of a cash-flow statement, standards not yet effective, preparation of group accounts and related party transactions.

These accounts are separate financial statements. The company is exempt from the preparation and delivery of consolidated financial statements because it is included in the group accounts of Host Europe Holdings Limited.

Where relevant, equivalent disclosures have been given in the group accounts of Host Europe Holdings Limited. The group accounts of Host Europe Holdings Limited are available to the public and can be obtained as set out in note 22.

Going concern

The company is expected to continue to generate positive cash flows on its own account for the foreseeable future. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

In assessing whether the going concern basis is appropriate, the directors take into account all available information about the future, which is at least, but is not limited to, 12 months from the date of approval of these financial statements. The directors have performed this review at a company level and have also performed a review for the entire group as disclosed in the accounts of the ultimate parent company, Host Europe Holdings Limited.

In making this conclusion, the directors have considered the letter of support the company received from Host Europe Holdings Limited and the current level of economic uncertainty. The directors have a reasonable expectation that despite the current economic uncertainty the company has adequate resources to continue in operational existence for the foreseeable future.

Thus they continue to adopt the going concern basis in preparing these financial statements.

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less, where appropriate, provisions for impairment.

Tax

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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.

Paragon Internet Group Limited

Notes to the financial statements (continued) For year ended 31 December 2016

3. Accounting policies (continued)

Tax (continued)

Deferred tax

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 generally recognised 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 the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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 based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Finance costs

Finance costs are charged to the income statement over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs, which are initially recognised as a reduction in the proceeds of the associated capital instrument.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the balance sheet date;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the service for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses incurred.

Paragon Internet Group Limited

Notes to the financial statements (continued) For year ended 31 December 2016

3. Accounting policies (continued)

Revenue recognition (continued)

Interest revenue

Interest income is recognised when it is probable that the economic benefits will flow to the company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

| Asset class | Depreciation method and rate |
|---|------------------------------------|
| Short term leasehold property | Over the lease term, straight line |
| Network infrastructure, plant and machinery | 33% straight line |
| Motor vehicles | 25% straight line |
| Fixtures and fittings | 20% and 25% straight line |
| Office equipment | 20% and 33.33% straight line |
| Computer equipment | 20% and 33.33% straight line |
| Other fixed assets | 20% and 33.33% straight line |

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Goodwill

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets, the difference is treated as purchased goodwill and is capitalised and amortised on a straight-line basis through the income statement over its estimated useful life. The economic life of goodwill has been estimated by the directors to be 10 years.

At the end of the first full financial year following acquisition goodwill is assessed for impairment. Thereafter, goodwill is monitored for indicators of impairment and a test for impairment is performed should indicators be identified.

Patents and licenses

Patents and licenses are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

Paragon Internet Group Limited

Notes to the financial statements (continued) For year ended 31 December 2016

3. Accounting policies (continued)

Research and development

Development costs are capitalised within intangible assets where they can be identified with a specific product or project anticipated to produce future benefits, and are amortised on the straight line basis over the anticipated life of the benefits arising from the completed product or project.

Deferred research and development costs are reviewed annually, and where future benefits are deemed to have ceased or to be in doubt, the balance of any related research and development is written off to the income statement.

Impairment of tangible and intangible assets

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investments

Investments held as fixed assets are shown at cost less provision for impairment.

Paragon Internet Group Limited

Notes to the financial statements (continued) **For year ended 31 December 2016**

3. Accounting policies (continued)

Leases

Where assets are financed by leasing arrangements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the income statement.

Lease payments are analysed between capital and interest components. The interest element of the payment is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the balance of the capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the income statement on a straight-line basis over the term of the lease.

Reverse premiums and similar incentives received to enter into operating lease agreements are released to the income statement over the period to the date on which the rent is first expected to be adjusted to the prevailing market rate.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form a basis for making the judgements about the carrying value of assets and liabilities that are not readily apparent from other sources.

The directors have reviewed the estimates and assumptions used in the preparation of the financial statements. The directors do not believe that there is a significant risk which would lead to material adjustments to the carrying value of any assets and liabilities in the next financial year due to the changes on the estimates or assumptions.

In making its judgement surrounding revenue recognition, management have considered the detailed criteria for revenue from the sale of goods and rendering of services set out in IAS 18 Revenue. The directors are satisfied that recognition of revenue in the current year is appropriate, in conjunction with recognition of an appropriate provision.

The Company reviews the estimated useful lives of intangibles at the end of each reporting period. During the current year, after the company's acquisition, the directors determined that the useful life of goodwill is 10 years and customer lists is 4 years in line with the current group policy of Host Europe Holdings Limited.

Paragon Internet Group Limited

Notes to the financial statements (continued) For year ended 31 December 2016

5. Revenue

The analysis of the company's revenue is as follows:

| | 2016 £ 000 | 2015 £ 000 |
|----------------------------------|---------------|---------------|
| Web hosting and network services | 11,348 | 7,022 |

All revenue has arisen in the United Kingdom and is attributable to the company's principal activity.

6. Profit/(loss) before tax

Profit/(loss) before tax for the year has been arrived at after charging:

| | 2016 £ 000 | 2015 £ 000 |
|---|---------------|---------------|
| Amortisation - intangible assets | 1,884 | 528 |
| Depreciation of tangible fixed assets - owned by the company | 910 | 414 |
| Depreciation of tangible fixed assets - held under finance leases | 678 | 774 |

7. Auditor's remuneration

Fees payable to Deloitte LLP and their associates for the audit of the company's annual accounts were £17,500 (2015: £11,000).

Fees payable to Deloitte LLP and their associates for non-audit services to the company are not required to be disclosed because the consolidated financial statements of the parent company are required to disclose such fees on a consolidated basis.

Paragon Internet Group Limited

Notes to the financial statements (continued) For year ended 31 December 2016

8. Staff costs

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

| | 2016 No. | 2015 No. |
|-----------------------------------|-------------|-------------|
| Technical and customer operations | 47 | 40 |
| Management and administration | 2 | 2 |
| Sales and marketing | 4 | 4 |
| | <u>53</u> | <u>46</u> |

Their aggregate remuneration comprised:

| | 2016 £ 000 | 2015 £ 000 |
|-----------------------|---------------|---------------|
| Wages and salaries | 3,018 | 2,047 |
| Social security costs | <u>233</u> | <u>159</u> |
| | <u>3,251</u> | <u>2,206</u> |

9. Directors' remuneration

The directors' remuneration for the year was as follows:

| | 2016 £ 000 | 2015 £ 000 |
|--------------|---------------|---------------|
| Remuneration | <u>300</u> | <u>283</u> |

In respect of the highest paid director:

| | 2016 £ 000 | 2015 £ 000 |
|--------------|---------------|---------------|
| Remuneration | <u>150</u> | <u>142</u> |

10. Interest payable and similar charges

| | 2016 £ 000 | 2015 £ 000 |
|----------------------------|---------------|---------------|
| Interest on group loans | 576 | 3 |
| Interest on finance leases | 75 | 180 |
| Other interest | <u>10</u> | <u>-</u> |
| | <u>661</u> | <u>183</u> |

Paragon Internet Group Limited

Notes to the financial statements (continued) For year ended 31 December 2016

11. Tax on loss on ordinary activities

Tax charged for the year in the income statement:

| | 2016 £ 000 | 2015 £ 000 |
|--|---------------|---------------|
| Current taxation | | |
| UK corporation tax | - | - |
| Adjustments in respect of prior periods | 4 | (6) |
| Deferred taxation | | |
| Arising from origination and reversal of temporary differences | 65 | (170) |
| Tax charge / (credit) for the year | <u>69</u> | <u>(176)</u> |

The tax on loss before tax for the year is the same as the standard rate of corporation tax in the UK of 20% (2014: 20.25%).

The charge for the year can be reconciled to the loss in the income statement as follows

| | | |
|---|------------|--------------|
| Profit /(Loss) before tax | <u>282</u> | <u>(706)</u> |
| Corporation tax at standard rate | 56 | (143) |
| Effect of expenses not deductible in determining taxable profit | 1,158 | 47 |
| Effect of Income not taxable in determining taxable profit | (1,324) | - |
| Adjustments to tax charge in respect of previous periods | 4 | (6) |
| Group relief | (92) | - |
| Deferred tax not recognised | 350 | (109) |
| Deferred tax adjustment to previous period | (73) | - |
| Other tax adjustments | (2) | - |
| Effect of changes in tax rate | (8) | 35 |
| Tax charge / (credit) for the year | <u>69</u> | <u>(176)</u> |

The future tax charge will be reduced to below the UK standard rate by the availability of tax losses.

Paragon Internet Group Limited

Notes to the financial statements (continued) For year ended 31 December 2016

12. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon during the current and prior reporting period.

| | Tax losses £ 000 |
|---------------------------|---------------------|
| At 1 January 2016 | 170 |
| Debit to income statement | 65 |
| At 31 December 2016 | 105 |

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

| | 2016 £ 000 | 2015 £ 000 |
|--------------------------|---------------|---------------|
| Deferred tax liabilities | - | - |
| Deferred tax assets | 105 | 170 |
| | 105 | 170 |

The company has further deferred tax assets of £134,000 (2015: £134,000) which have not been recognised.

The asset will be recoverable when the company makes taxable profits against which these losses can be offset.

13. Intangible assets

| | Goodwill £ 000 | Customer lists £'000 | Development costs £ 000 | Total £ 000 |
|--------------------------|-------------------|----------------------------|-------------------------------|----------------|
| Cost or valuation | | | | |
| At 1 January 2016 | 4,102 | 1,545 | 385 | 6,032 |
| Additions | - | 10,131 | 279 | 10,410 |
| At 31 December 2016 | 4,102 | 11,676 | 664 | 16,442 |
| Amortisation | | | | |
| At 1 January 2016 | 916 | 230 | - | 1,146 |
| Amortisation charge | 363 | 1,443 | 78 | 1,884 |
| At 31 December 2016 | 1,279 | 1,673 | 78 | 3,030 |
| Carrying amount | | | | |
| At 31 December 2016 | 2,823 | 10,003 | 586 | 13,412 |
| At 31 December 2015 | 3,186 | 1,315 | 385 | 4,886 |

Paragon Internet Group Limited

Notes to the financial statements (continued) **For year ended 31 December 2016**

14. Tangible fixed assets

| | Short term leasehold properties £ 000 | Other fixed assets £ 000 | Total £ 000 |
|--------------------------|--|--------------------------------|----------------|
| Cost or valuation | | | |
| At 1 January 2016 | 703 | 4,393 | 5,096 |
| Additions | - | 2,439 | 2,439 |
| At 31 December 2016 | <u>703</u> | <u>6,832</u> | <u>7,535</u> |
| Depreciation | | | |
| At 1 January 2016 | 128 | 2,464 | 2,592 |
| Charge for the year | 37 | 1,551 | 1,588 |
| At 31 December 2016 | <u>165</u> | <u>4,015</u> | <u>4,180</u> |
| Carrying amount | | | |
| At 31 December 2016 | <u>538</u> | <u>2,817</u> | <u>3,355</u> |
| At 31 December 2015 | <u>575</u> | <u>1,929</u> | <u>2,504</u> |

Assets held under finance leases and hire purchase contracts

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

| | 2016 £ 000 | 2015 £ 000 |
|--------------------|---------------|---------------|
| Other fixed assets | <u>321</u> | <u>619</u> |

Paragon Internet Group Limited

Notes to the financial statements (continued) For year ended 31 December 2016

15. Investment in subsidiaries

| Cost or valuation | £ 000 |
|------------------------|---------|
| At 01 December 2016 | - |
| Additions | 8,463 |
| Impairment | (4,858) |
| At 31 December 2016 | 3,605 |
| Carrying amount | |
| At 31 December 2016 | 3,605 |
| At 31 December 2015 | - |

On 3 February 2016 the Company acquired 100% of the share capital of 5Quidhost Limited for £872,000.

On 1st April 2016 the Company acquired 100% of the share capital of Swarma Limited for £3,260,000.

On 1st April 2016 the Company acquired 100% of the share capital of Dataflame Internet Services Limited for £726,000.

On 26th April 2016 the Company acquired 100% of the share capital of ElasticHosts Limited for £3,605,000.

The impairment provision relates to the investments in 5Quidhost Limited, Swarma Limited and Dataflame Limited whose assets were hived up in to the company on 31 July 2016 and these companies have ceased trading.

Details of the company's subsidiaries as at 31 December 2016 are as follows:

| Name of subsidiary | Principal activity | Registered Office | Proportion of ownership interest and voting rights held | |
|---|--------------------|-------------------|---|------|
| | | | 2016 | 2015 |
| Compila Limited | Dormant | | 100% | 100% |
| Identisafe Limited | Dormant | | 100% | 100% |
| Paragon Services EOOD (formerly Siteswitch EOOD) | Telecommunications | a | 100% | 100% |
| Thermal Degree Limited* | Telecommunications | | 100% | 100% |
| UK Webhosting Limited* | Telecommunications | | 100% | 100% |
| 5quid Ltd | Telecommunications | | 100% | - |
| Dataflame Ltd | Telecommunications | | 100% | - |
| Swarma Ltd | Telecommunications | | 100% | - |
| Elastichosts Ltd | Telecommunications | | 100% | - |

* indicates direct investment of Paragon Internet Group Limited

Registered Office

Unless otherwise referenced the registered office of the company's subsidiaries is: 252-254 Blyth Road, 5th Floor, The Shipping Building, Old Vinyl Factory, Hayes, Middlesex, England, UB3 1HA.

a) Capital Fort, 90 Tzarigradsko shose Blvd, Sofia, Bulgaria

Paragon Internet Group Limited

Notes to the financial statements (continued) For year ended 31 December 2016

16. Debtors

| | 2016 £ 000 | 2015 £ 000 |
|---|---------------|---------------|
| Amounts falling due within one year: | | |
| Trade debtors | 965 | 516 |
| Amounts owed by other group undertakings | 475 | 47 |
| Taxation and social security | 22 | 25 |
| Prepayments and accrued income | 123 | 104 |
| Deferred tax asset | 105 | 170 |
| Other debtors | 404 | 69 |
| | <u>2,094</u> | <u>931</u> |

17. Creditors: amounts falling due within one year

| | 2016 £ 000 | 2015 £ 000 |
|--|---------------|---------------|
| Trade creditors | 415 | 299 |
| Net obligations under finance leases and hire purchase contracts | 245 | 636 |
| Corporation tax | 8 | - |
| Other taxation and social security | 252 | 320 |
| Amounts owed to other group undertakings | 12,296 | 602 |
| Accruals and Deferred income | 4,814 | 2,346 |
| Other creditors | 1,403 | 183 |
| | <u>19,433</u> | <u>4,386</u> |

18. Creditors: amounts falling due after more than one year

| | 2016 £ 000 | 2015 £ 000 |
|--|---------------|---------------|
| Net obligations under finance leases and hire purchase contracts | - | 315 |
| Deferred income | 174 | - |
| | <u>174</u> | <u>315</u> |

Paragon Internet Group Limited

Notes to the financial statements (continued) For year ended 31 December 2016

19. Provisions for liabilities

| | 2016 £ 000 | 2015 £ 000 |
|-------------------------|---------------|---------------|
| Dilapidation provision | 410 | 400 |
| Onerous lease provision | 242 | 546 |
| | <u>652</u> | <u>946</u> |

| | Dilapidations provision £ 000 | Onerous lease provision £ 000 | Total £ 000 |
|----------------------------------|-------------------------------------|--|----------------|
| At 1 January 2016 | 400 | 546 | 946 |
| Additional provision in the year | 10 | - | 10 |
| Utilisation of provision | - | (304) | (304) |
| | <u>410</u> | <u>242</u> | <u>652</u> |

20. Called-up share capital and reserves

| | 2016 No. | 2016 £ 000 | 2015 No. | 2015 £ 000 |
|------------------------------|----------------|---------------|----------------|---------------|
| Ordinary A shares of £1 each | 799,001 | 799 | 799,001 | 799 |
| Ordinary B shares of £1 each | 80,000 | 80 | 80,000 | 80 |
| Ordinary C shares of £1 each | 40,000 | 40 | 40,000 | 40 |
| Ordinary D shares of £1 each | 40,000 | 40 | 40,000 | 40 |
| Ordinary E shares of £1 each | 40,000 | 40 | 40,000 | 40 |
| | <u>999,001</u> | <u>999</u> | <u>999,001</u> | <u>999</u> |

Shareholders of all ordinary shares are entitled to one vote for every share.

The ordinary shares have no entitlement to dividends except with special approval, until the group sells all or part of its operating business.

The company's other reserves are as follows:

Retained earnings

The retained earnings reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

Paragon Internet Group Limited

Notes to the financial statements (continued) For year ended 31 December 2016

21. Obligation under leases and hire purchase contracts

Operating leases

At the balance sheet date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2016 £ 000 | 2015 £ 000 |
|----------------------|---------------|---------------|
| Within one year | 184 | 184 |
| In two to five years | 734 | 734 |
| In over five years | 1,193 | 1,377 |
| | <u>2,111</u> | <u>2,295</u> |

The amount of non-cancellable operating lease payments recognised as an expense during the year was £184,000 (2015: £184,000).

22. Immediate and ultimate parent company and controlling party

The immediate parent company at the year end is P.I.G. Holdings Limited.

The ultimate parent company is Host Europe Holdings Limited, a company incorporated in the Channel Islands, which is the parent company of the smallest and largest group to consolidate these financial statements.

The consolidated financial statements of Host Europe Holdings Limited can be obtained from Host Europe Holdings Limited, 5th Floor, The Shipping Building, Old Vinyl Factory, 252-254 Blyth Road, Hayes, UB3 1HA.

The ultimate controlling party was the Fifth Cinven Fund which holds the majority of the shares in the company and which is managed by Cinven Capital Management (V) General Partner Limited.

23. Post Balance sheet events

On 6 December 2016, US-based GoDaddy Inc., the world's largest cloud platform dedicated to small, independent ventures, entered into a definitive agreement to acquire Host Europe Holdings and its subsidiaries.

The transaction was approved by the GoDaddy board of directors and the Group's shareholders and closed on 3 April 2017.