

Company Registration No. 04285073

Houlihan Lokey (Europe) Limited

Directors' Report and Financial Statements

For the year ended 31 March 2017



Houlihan Lokey (Europe) Limited

Directors' report and financial statements

31 March 2017

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Houlihan Lokey (Europe) Limited

Strategic report

The directors present the strategic report for the year ended 31 March 2017.

Principal activities

The principal activity of Houlihan Lokey (Europe) Limited prior to the reorganisation (see below) was the provision of corporate finance advisory services. Following the reorganisation, the company's principal activity was as an international investment holding company. As part of an internal reorganisation, Houlihan Lokey (Europe) Limited contributed its UK business and assets to Houlihan Lokey EMEA Limited Liability Partnership ("LLP") on 1 November 2016. The business and assets of Houlihan Lokey (Europe) Limited's European branches in Spain, France and Germany were contributed to Houlihan Lokey EMEA LLP on 1 February 2017. Once this reorganisation was completed, Houlihan Lokey (Europe) ceased to be regulated by the Financial Conduct Authority ("FCA"), the Autorite des Marchés Financiers ("AMF"), Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin") and the Comisión Nacional del Mercado de Valores ("CNMV").

Management of the business

The directors manage the subsidiaries and investments by maximising revenue generation and associated profitability. Total revenues and costs are monitored via comparison to budget and to the prior year.

Results and dividends

Total revenue for Houlihan Lokey (Europe) Limited for the year was £42,100,051 (31 March 2016: revenue of £53,371,458). Total revenue decreased by 21.1% from the previous financial year due to the shortened operating period. Similarly, administrative costs for the company decreased by 27.4% to £33,660,055 (31 March 2016: expenses of £46,349,825). As a result of the above, the Company made an operating profit of £7,737,132 (31 March 2016: operating profit of £8,416,165) during the shortened period.

Goodwill, intangible assets and certain investments in subsidiary undertakings were excluded from the contribution made under the reorganisation described above thus necessitating a write down of these amounts totalling £19,749,601 (31 March 2016: impairment of nil). Including these write downs, the company made a loss after tax of £13,303,896 (31 March 2016: profit of £7,022,365).

A dividend of £nil was paid during the year. (31 March 2016: £nil).

Risk management

The risks of, and funding to support the business and operations are monitored on an ongoing basis. More information about risks facing the company and how they are managed can be found in note 24 to the annual financial statements.

In its treasury and cash management function, the Company monitors cash needs as well as excess cash balances and sends or requests cash as needed via its related party loans. Its subsidiaries and investments are managed by maximising revenue generation and associated profitability. Capital requirements are monitored in relation to the external requirements of its subsidiaries and investments and any working capital needs they may have.

The company's business model results in a limited number of risks. The company's operating subsidiaries provide advisory services across business units to a variety of clients. These business lines are diversified such that the company should be profitable in most economic environments. Capital requirements are monitored in relation to the external requirements of its subsidiaries and investments and any working capital needs they may have.

Approved by the Board of Directors
and signed on behalf of the Board by



JA Cowan
Director

13 December 2017

Houlihan Lokey (Europe) Limited

Directors' report

The directors submit their report and the audited financial statements for the year ended 31 March 2017.

Directors

The directors of the company throughout the year were:

DA Preiser
JA Cowan
R Hotz

Going Concern

The company's business activities together with information on its risk management is described in the Strategic Report on page 3. The company's principal subsidiary has considerable financial resources and a business model which is designed for that subsidiary to be profitable in most economic environments. The directors believe that the company is well placed to manage its business risks into the future. Accordingly, the directors have adopted the going concern basis in preparing the annual report and accounts.

Directors' interests

The directors do not have any shareholding in the company.

Registered Office

83 Pall Mall
London
SW1Y 5ES

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board of Directors
and signed on behalf of the Board by



JA Cowan
Director

13 December 2017

Company Registration No. 04285073

Houlihan Lokey (Europe) Limited

Statement of Directors' responsibilities in respect of the Strategic Report, Directors' Report and the Financial Statements

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 company financial statements for each financial year. Under that law they have elected to prepare the company financial statements in accordance with IFRSs, as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of their profit or loss for that period. In preparing the company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; 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 its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independent auditor's report to the shareholders of Houlihan Lokey (Europe) Limited

We have audited the financial statements of Houlihan Lokey (Europe) Limited for the year ended 31 March 2017 set out on pages 7 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders, 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 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

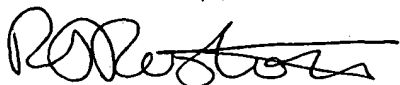
Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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.



Richard Rawstron (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL

13 December 2017

Houlihan Lokey (Europe) Limited

Statement of comprehensive income for the year ended 31 March 2017

	Notes	Continuing Operations		Discontinued Operations		Total	
		Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2017	Year ended 31 March 2016
		£		£		£	£
Revenue	4	-	-	42,100,051	53,371,458	42,100,051	53,371,458
Administrative expenses		-	-	(34,362,919)	(44,955,293)	(34,362,919)	(44,955,293)
Operating profit		-	-	7,737,132	8,416,165	7,737,132	8,416,165
Finance income	5	-	-	373,262	877,789	373,262	877,789
Finance expense	5	-	-	(19,824)	(331,709)	(19,824)	(331,709)
Impairment	6	(19,749,601)	-	-	-	(19,749,601)	-
(Loss)/Profit before taxation	7	(19,749,601)	-	8,090,570	8,962,245	(11,659,031)	8,962,245
Taxation	8	(1,644,865)	-	-	(1,939,879)	(1,644,865)	(1,939,879)
Net (loss)/profit for the year		(21,394,466)	-	8,090,570	7,022,365	(13,303,896)	7,022,365
Other comprehensive income, net of income tax							
Foreign currency translation differences for foreign operations		-	-	381,717	(4,260)	381,717	4,260
Total comprehensive (loss)/income for the year		(21,394,466)	-	8,472,287	7,026,625	(12,922,179)	7,026,625

The notes on pages 11 to 23 form an integral part of these financial statements.

Houlihan Lokey (Europe) Limited

Statement of financial position at 31 March 2017

	Notes	Year ended 31 March 2017 £	Year ended 31 March 2016 £
Assets			
Non-current assets			
Property, plant, and equipment	11	-	901,379
Intangible assets	12	-	5,774,325
Investments in subsidiaries and other associated entities	25	40,158,569	19,140,144
Deferred tax asset	8	1,469,799	1,117,377
Total non-current assets		41,628,368	26,933,225
Current assets			
Trade and other receivables	13	27,213,022	52,752,968
Cash and cash equivalents	20	10,154	17,237,764
Total current assets		27,223,176	69,990,732
Total assets		68,851,544	96,923,957
Liabilities			
Non-current liabilities			
Employee benefits	16	-	2,565,961
Total non-current liabilities		-	2,565,961
Current liabilities			
Trade and other payables	15	7,838,662	19,113,915
Derivative financial instruments	14	-	43,017
Current tax liabilities		256,050	626,197
Provisions for other liabilities	22	-	1,467,586
Total current liabilities		8,094,712	21,250,715
Total liabilities		8,094,712	23,816,676
Net assets		60,756,832	73,107,281
Equity			
Share capital	17	971,200	971,200
Share premium		15,183,865	15,183,865
Capital contribution reserve		25,071,464	24,499,735
Foreign currency translation reserve		(2,050,978)	(2,432,695)
Retained earnings		21,581,281	34,885,176
Total equity attributable to equity shareholders	18	60,756,832	73,107,281

The notes on pages 11 to 23 form an integral part of these company financial statements.

These financial statements were approved by the Board of Directors on 13 December 2017 and were signed on its behalf by:


JA Cowan
Director

Company Registration No. 04285073

Houlihan Lokey (Europe) Limited

Statement of changes in equity for the year ended 31 March 2017

	Notes	Share capital £	Share premium £	Capital contribution reserve £	Foreign currency translation reserve £	Retained earnings £	Total £
Balance at 1 April 2015		971,200	15,183,865	17,823,548	(2,436,955)	27,862,811	59,404,469
Comprehensive income:							
Profit for the year		-	-	-	-	7,022,365	7,022,365
Other comprehensive income:							
Currency translation differences		-	-	-	4,260	-	4,260
Transactions with owners:							
Capital contribution		-	-	6,676,187	-	-	6,676,187
Balance at 31 March 2016		<u>971,200</u>	<u>15,183,865</u>	<u>24,499,735</u>	<u>(2,432,695)</u>	<u>34,885,176</u>	<u>73,107,281</u>
Balance at 1 April 2016		971,200	15,183,865	24,499,735	(2,432,695)	34,885,176	73,107,281
Comprehensive income:							
Loss for the year		-	-	-	-	(13,303,896)	(13,303,896)
Other comprehensive income:							
Currency translation differences		-	-	-	381,717	-	381,717
Transactions with owners:							
Capital contribution		-	-	571,729	-	-	571,729
Balance at 31 March 2017	17,18	<u>971,200</u>	<u>15,183,865</u>	<u>25,071,464</u>	<u>(2,050,978)</u>	<u>21,581,281</u>	<u>60,756,832</u>

The notes on pages 11 to 23 form an integral part of these company financial statements.

Houlihan Lokey (Europe) Limited

Statement of cash flows for the year ended 31 March 2017

	Notes	Year ended 31 March 2017	Year ended 31 March 2016
Cash flows from operating activities			
Operating (loss)/profit for the year		7,737,132	8,416,164
Adjustments for:			
Costs associated with the capital contribution reserve		571,729	6,676,187
Depreciation		160,891	186,524
Fair value (gain)/loss on derivative financial instruments		(43,017)	508,123
Realised foreign currency loss on transfer of European branches		367,447	-
Unrealised foreign currency movement		-	(8,868)
Operating (loss)/profit before changes in working capital		<u>8,794,181</u>	<u>15,778,130</u>
Decrease/(Increase) in trade and other receivables		25,893,385	5,017,614
(Decrease)/Increase in trade and other payables		(11,275,253)	(4,173,438)
(Decrease)/Increase in long term employee benefits		(2,565,961)	779,696
(Decrease)/Increase in other liabilities		(1,467,586)	-
Non cash contribution to subsidiary		(3,038,213)	-
Tax paid		(2,367,434)	(2,120,392)
Net cash from operating activities		<u>13,973,119</u>	<u>15,281,610</u>
Cash flows from investing activities			
Interest received		-	3,465
Acquisition of property, plant and equipment		(259,024)	(259,017)
Investment in subsidiaries		(31,044,302)	(14,856,001)
Disposal of PPE		102,597	-
Net cash from investing activities		<u>(31,200,729)</u>	<u>(15,111,553)</u>
Net increase / (decrease) in cash and cash equivalents		(17,227,610)	170,057
Cash and cash equivalents at the beginning of the year		17,237,764	17,067,707
Cash and cash equivalents at the end of the year	20	<u>10,154</u>	<u>17,237,764</u>

The notes on pages 11 to 23 form an integral part of these financial statements.

Houlihan Lokey (Europe) Limited

Notes to the financial statements

1. General Information

Houlihan Lokey (Europe) Limited is domiciled in the United Kingdom and is a holding company. The company's registered office is at 83 Pall Mall, London, SW1Y 5ES. During the year, the company's main trading activity was transferred into its main subsidiary, HL EMEA LLP. The trading for the UK operations in the company ceased on 31 October 2016 at which time the trading was transferred to HL EMEA LLP. For the period 1 November 2016 to 31 January 2017, the company's trading activity related only to the branches in Germany, Spain and France. The trading activity for each of the branches were transferred from the Company to HL EMEA LLP on 1 February 2017.

2. Basis of preparation

2.1 Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') at the balance sheet date, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis.

At 31 March 2017, there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the Company's financial statements for the year ended 31 March 2017 are prepared in accordance with IFRSs as issued by the IASB.

The financial statements were approved by the board on 13 December 2017.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention for all amounts except for intangible assets and derivative financial instruments, which are measured at fair value.

2.3 Functional and presentation currency

These financial statements are presented in sterling, which is the company's functional currency. Except as indicated, financial information presented in sterling has been rounded to the nearest pound.

The assets and liabilities of foreign operations are translated to the company's presentation currency at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from the translation of foreign operations are taken directly to the foreign currency translation reserve. They are released into the income statement upon disposal.

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Goodwill impairment testing is a key estimate. Refer to note 12 for further information on how goodwill is reviewed periodically for impairment.

Management use estimates and apply judgement in determining the expected number of leavers from the share-based payment awards scheme in order to calculate the value of share-based payment awards to be recognised in the financial statements, and the likelihood of certain performance targets being met in order to determine the likelihood of the availability of future taxable profits becoming available in recognising deferred tax assets.

Management uses estimates and applies judgements in determining the discount rate and forecasted cash flow inputs to the value in use method that is used in the impairment assessment of its investment in subsidiaries, and in determining the likelihood of available future taxable profits necessary for the recognition of deferred tax assets. Refer to note 3, 1 and 3.7 respectively for more information. There are no other material estimates applied in the Company's financial statements.

In the opinion of the directors, the use of estimates does not present a significant risk of material adjustments to the carrying amounts of assets and liabilities in these financial statements.

2.5 Basis of exemption from preparing consolidated financial statements

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

2.6 Newly effective and forthcoming standards

In May 2014, the IASB issued amendments to IFRS 15 *Revenue from Contracts with Customers*. This provides guidance on revenue recognition and further required disclosures. This has not been early adopted by the company, and is not applicable until our financial statements for the year ended 31 March 2019. The impact of this standards is not expected to have a material impact on the financial statements.

In July 2014, the IASB issued amendments to IFRS 9 *Financial Instruments* (2014). This standard contains requirements on the classification and measurement of financial assets and liabilities. This has not been early adopted by the company, and is not applicable until our financial statements for the year ended 31 March 2019. The impact of this standards is not expected to have a material impact on the financial statements.

In January 2016, the IASB issued IFRS 16 *Leases*. For lessees, this specifies the recognition, measurement and disclosure of leases, and requires all leases to be recognised as assets or liabilities unless the term is 12 months or less. This has not been early adopted by the company, and is not applicable until our financial statements for the year ended 31 March 2020. The impact of this standards is not expected to have a material impact on the financial statements.

Houlihan Lokey (Europe) Limited

Notes to the financial statements

3. Significant accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the comparative income statement has been re-presented so that the disclosures in relation to discontinued operations relate to all operations that have been discontinued by the balance sheet date (see note 3.13 and note 26).

3.1 Impairment

Management reviews goodwill, receivables and other assets, including property, plant and equipment, for indications of impairment regularly. An impairment loss is recognised whenever the carrying amount of the asset exceeds its recoverable amount. Any impairment is recognised immediately in the income statement. Refer to note 3.3 for information regarding impairment assessment of trade receivables, and note 6 for impairment assessments of goodwill.

3.2 Intangible assets

Intangible assets comprise trademarks as well as goodwill which arose from acquisition of the subsidiary.

Goodwill

Goodwill represents the excess of the cost of the acquisition over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), the negative goodwill is recognised immediately in profit or loss and is not subsequently reversed in future periods. Goodwill is initially recognised as an asset at cost, and reviewed for indications of impairment at least annually. Where goodwill relates to assets that have subsequently been disposed of, goodwill is impaired to nil.

3.3 Financial assets and liabilities

The company classifies its financial assets into the following categories:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than held for trading or designated on initial recognition as assets at fair value through profit or loss or as available-for-sale. Loans and receivables, specifically trade receivables, arise mainly from financial advisory services. They are measured initially at fair value including transaction costs, and subsequently measured at their amortised cost using the effective interest rate method. Management reviews trade receivables for indications of impairment regularly. Individual impairment losses on trade receivable balances are recognised only if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset. Impairment losses are recognised immediately in the income statement. If, in a subsequent period, the amount of the impairment loss relating to trade receivables decreases due to an event occurring after the impairment was originally recognised, the previously recognised impairment loss is reversed through the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits.

Derivative financial instruments

The company periodically uses forward exchange contracts. The instruments are held for trading. These instruments are held at fair value in the balance sheet. Movements in the value of these instruments are recognised in the profit and loss account.

Financial liabilities

The company's financial liabilities are all classified as financial liabilities held at amortised cost.

Trade and other payables

Trade payables comprise amounts outstanding for trade purchases and ongoing costs as well as accrued bonuses payable. They are measured initially at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method, which in itself is an approximation of fair value.

3.4 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents fees from financial advisory services within the United Kingdom, France, Germany and Spain under various fee arrangements, including contingent fee arrangements. Revenue is measured net of discounts, VAT and any sales-related taxes, where applicable. Contingent fees are recognised when the contingent terms of the contract are substantially realised. Revenue from fixed fee arrangements is recognised on completion of defined stages of work.

3.5 Finance income and expenses

Interest income and expense are recognised in the income statement using the effective interest rate method.

Houlihan Lokey (Europe) Limited

Notes to the financial statements

3.6 Foreign currency transactions

Transactions in foreign currencies are translated to the functional currencies of the group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies, are retranslated to the functional currency at the exchange rate at the date that the cost was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

3.7 Investment in subsidiaries

Investments in subsidiaries are measured at cost less any impairment loss. A subsidiary is defined in IAS 27 *Separate Financial Statements* as an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent). The investments in subsidiaries are reviewed for impairment as discussed below and in note 25.

Management reviews its investments in subsidiaries and its loans to related parties for indications of impairment regularly. The analysis is performed on a value in use basis. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of the asset exceeds its recoverable amount. Any impairment is recognised immediately in the income statement.

3.8 Property, plant and equipment

Plant, property, and equipment are recorded at cost less accumulated depreciation and any impairment losses. Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Short leasehold property	Straight line over the term of the lease
Computer equipment, software and systems	Three to five years straight line
Equipment, fixtures and fittings	Three to five years straight line

3.9 Operating Leases

Rental costs under operating leases are recognised in the income statement on a straight line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3.10 Long term employee benefits and share based payments

The share based payments scheme policy as described below is how the company operated prior to the reorganisation. Since the reorganisation the below describes how the company's main subsidiary operates.

The fair value of equity-settled share-based payments to employees is determined at the date of the award and measured by reference to the share price at the date of award. The expected cost of the share based awards which the employees become entitled to is recognised in the income statement over the vesting period of each accrual.

The equity instruments awarded relate to another group company, Houlihan Lokey Inc. Amounts awarded to Houlihan Lokey (Europe) Limited employees are recognised in the income statement, with a corresponding increase in capital contribution reserve.

The company operates a defined contribution pension scheme. The costs of this scheme are charged to the income statement as they are incurred.

The company operates long term profit share schemes for the benefit of employees. The costs of such schemes are recognised in the income statement over the period in which the services are rendered that give rise to the obligation. Where the payment of profit share is deferred until the end of a specified vesting period, the deferred amount is recognised in the income statement over the period up to the date of vesting.

The company has entered into cash-settled share based payment transactions as part of the long term profit schemes. The fair value of such awards is measured at the date the awards are made and remeasured at each reporting date. Such awards are recognised in the income statement over the vesting period.

Share options are treated as equity settled share based payments. They are valued at the date they are granted to employees and that value is recognised in staff costs over the vesting period, with a corresponding adjustment to shareholders' equity. The fair value is calculated on the basis of the overall plan value at the date of grant. The only assumptions revised after the initial measurement, and hence resulting in a revaluation of the expense, are those relating to the probability that employees will leave the company.

Houlihan Lokey (Europe) Limited

Notes to the financial statements

3.11 Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.12 Provisions

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3.13 Discontinued operations

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale or distribution, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

Houlihan Lokey (Europe) Limited

Notes to the financial statements

4. Revenue

	Continuing Operations		Discontinued Operations		Total	
	Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2017	Year ended 31 March 2016
	£	£	£	£	£	£
Revenue derived from financial advisory services	-	-	24,787,629	46,687,211	24,787,629	46,687,211
Group revenue	-	-	17,312,422	6,684,247	17,312,422	6,684,247
	-	-	42,100,051	53,371,458	42,100,051	53,371,458

During the year, the company received income from Houlihan Lokey, Inc. and McQueen Holdings Limited, in both cases the income was received in satisfaction of the company's obligations pursuant to an agreement between the company and the other entity.

5. Finance income & expenses

	Continuing Operations		Discontinued Operations		Total	
	Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2017	Year ended 31 March 2016
	£	£	£	£	£	£
Finance income	-	-	-	-	-	-
Bank interest	-	-	-	3,465	-	3,465
Other interest income	-	-	373,262	874,324	373,262	874,324
	-	-	373,262	877,789	373,262	877,789
Finance expenses	-	-	-	-	-	-
Interest costs	-	-	(19,824)	(331,709)	(19,824)	(331,709)
	-	-	(19,824)	(331,709)	(19,824)	(331,709)

6. Impairment

	Continuing Operations		Discontinued Operations		Total	
	Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2017	Year ended 31 March 2016
	£	£	£	£	£	£
Impairment on goodwill	(5,774,325)	-	-	-	(5,774,325)	-
Impairment on investment in subsidiaries	(13,975,276)	-	-	-	(13,975,276)	-
	(19,749,601)	-	-	-	(19,749,601)	-

No intangible assets, including goodwill were contributed to Houlihan Lokey EMEA, LLP as part of the internal reorganisation. Accordingly, since all the business and the majority of the net assets were contributed as part of the reorganisation, the cash flows received by the company no longer support the value of goodwill carried; the company's main subsidiary receives those cash flows instead. Consequently the goodwill has been written down to nil.

Furthermore, as a result of the reorganization, McQueen Holdings Limited and its subsidiary Houlihan Lokey (Financial Advisory) Limited also transferred the majority of their business and assets into Houlihan Lokey EMEA, LLP. No intangible assets or goodwill were transferred. After the transfer, the recoverable value of the investment was deemed to have fallen below its carrying amount, and an impairment charge was taken to write down the investment to its recoverable value. As the business had transferred the majority of its trade and assets, the new recoverable value was deemed to be fair value less costs to sell, based on the net assets of McQueen Holdings Limited and its subsidiary. Refer note 25 for investment in subsidiary disclosure.

7. Profit on ordinary activities before taxation

	Continuing Operations		Discontinued Operations		Total	
	Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2017	Year ended 31 March 2016
	£	£	£	£	£	£
The profit on ordinary activities before taxation is stated after charging:						
Depreciation	-	-	160,891	186,524	160,891	186,524
Operating lease charges	-	-	-	-	-	-
Land & buildings	-	-	1,479,887	2,385,875	1,479,887	2,385,875
Other	-	-	33,395	50,622	33,395	50,622
Exchange (gains) or losses through profit & loss	-	-	702,864	(1,394,532)	702,864	(1,394,532)

The following fees payable to the company's auditor, KPMG LLP, have been borne by Houlihan Lokey, Inc. and recharged to its subsidiary:

Fees for the Houlihan Lokey (Europe) statutory audit	49,276	63,469	49,276	63,469
Other assurance services	-	23,600	-	23,600
	49,276	87,069	49,276	87,069

Houlihan Lokey (Europe) Limited

Notes to the financial statements

8. Tax on profit on ordinary activities

a) Analysis of tax charge on ordinary activities

Taxation is based on the profit/loss for the period and comprises:

	Year ended 31 March 2017 £	Year ended 31 March 2016 £
Current taxation		
United Kingdom corporation tax at 20%	1,892,264	2,307,707
(Over)/Under provision for tax in prior year	(3,602)	12,285
Effect of tax rates in other tax jurisdictions	108,625	-
	<u>1,997,286</u>	<u>2,319,992</u>
Deferred taxation		
Effect of future rates of tax	109,841	58,809
Origination and reversal of temporary	500,191	(438,922)
Tax on profits expected to be recognised in future periods	(962,454)	-
	<u>(352,422)</u>	<u>(380,113)</u>
Total tax on profit on ordinary activities	<u>1,644,865</u>	<u>1,939,879</u>

b) Factors affecting the tax charge for the current period

The tax charge for the period is higher than that resulting from applying the standard rate of corporation tax in the UK: 20%.
The differences are explained below:

Profit on ordinary activities before tax	(11,659,031)	8,962,244
Tax (credit)/charge at 20% thereon (2016: 20%)	(2,331,806)	1,792,449
Effects of:		
Expenses not deductible for tax purposes	(568,667)	156,782
Capital allowances in excess of depreciation	(13,170)	(46,681)
Impairments not deductible for tax purposes	3,949,920	-
Deferred tax asset recognised/utilised	500,191	(33,765)
Change in tax rate on deferred tax	109,841	58,809
Tax rates in other tax jurisdictions	2,158	-
Under/(over) provision for tax in prior year	(3,602)	12,285
Tax charge for the period	<u>1,644,865</u>	<u>1,939,879</u>
Deferred tax balance for the company is as follows:		
Opening balance	1,117,377	737,264
Effect of future rates of tax	(109,841)	(58,809)
Temporary differences	(500,191)	438,922
Tax on profits to be recognised in future periods	962,454	-
Closing balance	<u>1,469,799</u>	<u>1,117,377</u>

In line with tax rate reductions as set out in the Finance Act 2013, which passed into law on 17 July 2013, deferred tax balances as at 31 March 2017 have been recognised at a rate of 19% (2016: 20%), being the rate at which these balances are expected to unwind.

Houlihan Lokey (Europe) Limited holds a partnership interest in Houlihan Lokey EMEA LLP and has control over the partnership. Houlihan Lokey EMEA LLP is considered as a transparent entity (being that it does not pay tax) and that share of its profit is determined for corporation tax purposes in accordance with the partnership's profit-sharing arrangements. As a result, the Company is responsible for all tax on its profit share, as well as on its own profit and loss. All tax is therefore deemed continuing operations.

A deferred tax asset has been recognised in respect of the share of partnership profits subject to current tax and expected to be recognised as income by Houlihan Lokey (Europe) Limited in future periods.

Houlihan Lokey (Europe) Limited

Notes to the financial statements

9. Information about employees and directors

	Continuing Operations		Discontinued Operations		Total	
	Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2017	Year ended 31 March 2016
	No.	No.	No.	No.	No.	No.
Directors and business executives	-	-	67	83	67	83
Support, secretarial and administration	-	-	29	43	29	43
	-	-	96	126	96	126

The average number of staff employed by the company within each category of business was calculated on an average for the entire year. As a result of the transfer of business and assets to Houlihan Lokey EMEA, LLP, on October 2016 for London, and January 2017 for European branch offices, staff effectively ceased to be employed by the Company.

	Continuing Operations		Discontinued Operations		Total	
	Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2017	Year ended 31 March 2016	Year ended 31 March 2017	Year ended 31 March 2016
	£	£	£	£	£	£
Employee remuneration and costs of the company:						
Employees' remuneration	-	-	24,051,318	31,880,031	24,051,318	31,880,031
Social security costs	-	-	2,371,713	4,333,486	2,371,713	4,333,486
Other payroll costs	-	-	618,114	822,835	618,114	822,835
	-	-	27,041,145	37,036,352	27,041,145	37,036,352

Included within other payroll costs are pension contributions due and paid to a defined contribution pension plan of £569,880 (31 March 2016: £822,835).

	Total	
	Year ended 31 March 2017	Year ended 31 March 2016
	£	£
Directors' remuneration:		
Aggregate emoluments	181,270	333,989
Aggregate contributions due and paid to a defined contribution pension plan	8,820	15,000
	190,090	348,989
Highest paid director:		
Emoluments	181,270	333,989
Contributions due and paid to a defined contribution pension plan	8,820	15,000
	190,090	348,989
	No.	No.
Retirement benefits accrued to the following number of directors during the year under a defined contributions plan:	1	1
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes were:	1	1

Included in the aggregate emoluments is an amount of £6,707 (2016: £31,000) related to deferred cash bonus which was granted as part of the IPO and £42,487 (2016: £30,307) related to deferred stock.

10. Share-based payments

The company is part of a share award programme, whereby shares in Houlihan Lokey Inc, are conditionally awarded as a part of certain employees' annual bonus arrangements. Employees become entitled to these shares over a four year period after they are awarded. One quarter of the shares awarded vest at the end of each year during the four year vesting period. Shares issued prior to 13 August 2015 were issued under the former share award programme established by its previous ultimate parent ORIX Corporation. Employees become entitled to these shares over a three year period after they are awarded. One third of the shares awarded vest at the end of each year during the three year vesting period. Employee ownership of the shares is conditional on continued employment at the time of vesting. It is the obligation of Houlihan Lokey Inc to equity settle these share-based payments. Houlihan Lokey Inc may also issue shares in Houlihan Lokey Inc to the company's staff as a retention tool. Also refer to note 16. This policy has been adopted by the company's main subsidiary as part of the internal reorganisation.

A charge of £2,181,463 (31 March 2016: £2,581,422) to the income statement has been made for shares which the employees became entitled to in February 2017. The total number of shares that the employees became entitled to during the current year is 133,212 (31 March 2016: £226,934).

Following the internal reorganisation, no additional charge (31 March 2016: charge of £839,095) has been taken for share based payments as this is reflected in the financial statements for Houlihan Lokey EMEA LLP.

The grant-date fair value of the shares awarded is subject to the share price of Houlihan Lokey Inc (NYSE: HLI) on the grant date.

Houlihan Lokey (Europe) Limited

Notes to the financial statements

11. Property, plant and equipment

	Short leasehold property £	Computer equipment, software and systems £	Equipment, fixtures and fittings £	Total £
Cost				
At 1 April 2016	1,959,136	878,303	2,082,594	4,920,033
Additions	48,297	89,730	120,997	259,024
Transfers between categories	(25,107)	-	25,107	-
Effect of movement in foreign exchange	27,345	14,642	55,275	97,262
Fair value adjustment and Disposals	(526,004)	(200,533)	(234,830)	(961,366)
Transfers to Houlihan Lokey EMEA, LLP	(1,483,668)	(782,141)	(2,049,143)	(4,314,952)
As at 31 March 2017	-	-	-	-
Depreciation				
At 1 April 2016	(1,541,974)	(755,887)	(1,720,793)	(4,018,654)
Charge for the period	(30,695)	(49,754)	(80,441)	(160,891)
Effect of movement in foreign exchange	(21,847)	(13,734)	(47,411)	(82,992)
Fair value adjustment and Disposals	449,584	200,533	208,652	858,769
Transfers to Houlihan Lokey EMEA, LLP	1,144,932	618,842	1,639,993	3,403,767
As at 31 March 2017	-	-	-	-
Net book value				
As at 31 March 2017	-	-	-	-
As at 31 March 2016	417,162	122,416	361,801	901,379

As part of the internal reorganisation, the Company transferred all property, plant and equipment to Houlihan Lokey EMEA LLP as at 1 November 2016 for the London entity and 1 February 2017 for each of the European branches.

	Short leasehold property £	Computer equipment, software and systems £	Equipment, fixtures and fittings £	Total £
Cost				
At 1 April 2015	1,851,052	754,844	1,968,091	4,573,987
Additions	82,170	110,565	66,282	259,017
Disposals	-	-	-	-
Effect of movement in foreign exchange	25,914	12,894	48,221	87,029
As at 31 March 2016	1,959,136	878,303	2,082,594	4,920,033
Depreciation				
At 1 April 2015	(1,480,424)	(691,682)	(1,586,123)	(3,758,229)
Charge for the period	(41,689)	(52,102)	(92,733)	(186,524)
Disposals	-	-	-	-
Effect of movement in foreign exchange	(19,861)	(12,103)	(41,937)	(73,901)
As at 31 March 2016	(1,541,974)	(755,887)	(1,720,793)	(4,018,654)
Net book value				
As at 31 March 2016	417,162	122,416	361,801	901,379
As at 31 March 2015	370,628	63,162	381,968	815,758

Houlihan Lokey (Europe) Limited

Notes to the financial statements

12. Intangible assets

Intangible assets comprise goodwill from the acquisition of Blenheim Advisors Limited (Refer note 3.2).

Goodwill	31 March 2017 £	31 March 2016 £
Balance as at 1 April	5,774,325	5,774,325
Impairment	(5,774,325)	-
Balance as at 31 March	<u>5,774,325</u>	<u>5,774,325</u>

Goodwill is non-amortisable and is therefore periodically reviewed for impairment. Goodwill was not contributed to Houlihan Lokey EMEA LLP as part of the internal reorganisation. Accordingly, since all the business and the majority of the net assets were contributed as part of the reorganisation, the cash flows received by the company no longer support the value of goodwill carried; the company's main subsidiary receives those cash flows instead. Consequently the goodwill has been written down to nil.

13. Trade and other receivables

	31 March 2017 £	31 March 2016 £
Trade receivables	-	15,460,968
Other receivables	-	238,453
Amounts owing from group undertakings	27,213,022	36,637,484
Prepayments	-	416,063
	<u>27,213,022</u>	<u>52,752,968</u>

As the operational aspect has been transferred, the remaining trade and other receivables balance relates to the intercompany accounts, and there is limited credit risk is present in this demographic. Please refer to note 23 for the terms of intercompany loans.

The ageing of trade receivables is as follows:

	31 March 2017 £	31 March 2016 £
Not past due	-	10,903,020
Past due less than 30 days	-	527,883
Past due greater than 30 days	-	4,373,855
Provision for doubtful debts	-	(343,790)
	<u>-</u>	<u>15,460,968</u>

Credit risk is managed at the company's parent level as well as at group level. As the company is now an investment holding company, and there are no external trade receivables, no credit risk is remaining.

14. Derivative financial instruments

	Notional amount £	Carrying value £
At 31 March 2017		
No contracts in place	-	-
At 31 March 2016		
EURO - USD forward contract	551,106	(43,017)

Maturing 6 April 2016

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Notes to the financial statements

15. Trade and other payables

	31 March 2017	31 March 2016
	£	£
Trade payables	-	101,139
Non trade payables, accrued expenses and deferred income	7,838,662	19,012,776
	<u>7,838,662</u>	<u>19,113,915</u>

Non trade payables, accrued expenses and deferred income include accrued bonuses payable and the payroll taxes thereon.

16. Non-current employee benefits

	31 March 2017	31 March 2016
	£	£
Share Based Payments provision	-	1,962,852
Cash-settled share based payment liability	-	603,109
	<u>-</u>	<u>2,565,961</u>

These provisions have been transferred to the Partnership as part of the investment under the same conditions that existed previously, as described in note 10 to the financial statements.

17. Share capital

	31 March 2017	31 March 2016
	£	£
Ordinary shares of £1 each:		
Total issued and fully paid	<u>971,200</u>	<u>971,200</u>

18. Reconciliation of movements in shareholders' funds

	31 March 2017	31 March 2016
	£	£
Opening shareholders' funds	73,107,281	59,404,469
(Loss)/Profit for the period	(13,303,896)	7,022,365
Capital contribution reserve	571,729	6,676,187
Foreign currency translation reserve	381,717	4,260
Closing shareholders' funds	<u>60,756,832</u>	<u>73,107,281</u>

The capital contribution reserve represents amounts charged to the income statement related to group share based payment settled awards. The reserve represents equity that is non-distributable.

The foreign currency translation reserve represents the differences that had arisen on translation of the Paris, Frankfurt and Madrid branches from their functional currency of Euros to the company functional currency of Sterling. This reserve represents equity that is non-distributable.

The share premium account is also non-distributable.

19. Operating lease commitments

Operating lease commitments were transferred to the company's main subsidiary as part of the internal reorganisation. The total future minimum lease payments due under non-cancellable operating leases are as follows:

	Land & Buildings	Other	Land & Buildings	Other
	31 March 2017		31 March 2016	
Due:	£	£	£	£
Not later than one year	-	-	1,947,844	33,868
Later than one year and not later than five years	-	-	7,636,034	23,350
Later than five years	-	-	-	-
	<u>-</u>	<u>-</u>	<u>9,583,878</u>	<u>57,218</u>

20. Cash and cash equivalents

	31 March 2017	31 March 2016
	£	£
Bank balances	<u>10,154</u>	<u>17,237,764</u>

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Notes to the financial statements

21. Dividend per share

A dividend of £nil was paid during the 2017 financial year (2016: nil).

22. Provisions for other liabilities

The balance of provisions for other liabilities was transferred in full to Houlihan Lokey EMEA, LLP as part of the internal reorganisation. The 2016 balance of provisions for other liabilities of £1,467,586 includes an amount of £908,094 in relation to a notice dated 20 January 2009 of legal proceedings from IIMRC in respect of alleged unpaid tax, National Insurance Contributions and interest thereon in connection with an equity payment plan, in line with the transfer of the assets and liabilities to Houlihan Lokey EMEA, LLP in the 2017 financial year; this liability is now recognised in the Company at £nil (2016: £908,094) and has been settled in full by Houlihan Lokey EMEA, LLP after the year end.

23. Related Party Transactions

Parent and ultimate controlling party

Houlihan Lokey, Inc., a publicly owned United States based international financial services company listed in New York is the ultimate holding company of the Company. Copies of the financial statements of the parent company may be obtained from Houlihan Lokey, Inc., 10250 Constellation Blvd., 5th Floor Los Angeles, CA 90067.

Company balances and movements

Particulars of transactions, arrangements and agreements involving related parties are as follows:

Immediate parent

During the year the company paid a dividend of £nil to its immediate parent, HLHZ UK Holdings, LP (31 March 2016: £nil). As at the year end, there is no interest bearing amount owed by the immediate parent (31 March 2016: £22,671,441).

Related Parties

The company was a party to various related party transactions throughout the year. As per IAS 24 - Related Party Disclosures - these parties are related because they are members of the same group, in that they all have the same ultimate parent company - Houlihan Lokey, Inc.

On 1 November 2016, the company transferred assets and liabilities with a net value of £33,963,116 as consideration for an equity stake in Houlihan Lokey EMEA, LLP. This equity stake at year end comprised 96.4% of the members capital of the Partnership.

There are no funding implications for future periods with regards to this investment, other than the monitoring of capital requirements in relation to the external requirements, and any working capital needs in the Partnership.

A list of Related Parties which the company had transactions with during the period is as follows:

- Houlihan Lokey Inc.
- McQueen Holdings Limited
- Houlihan Lokey EMEA, Limited Liability Partnership
- Houlihan Lokey (Financial Advisory) Limited
- Houlihan Lokey Capital (Asia) Limited
- Houlihan Lokey (China) Limited
- Houlihan Lokey (Netherlands) B.V.
- Houlihan Lokey G.m.b.H.
- Houlihan Lokey (España) S.A.
- HLHZ Investment Consulting (Beijing) Co., Ltd
- Leonardo & Co. S.p.A
- Houlihan Lokey Capital (Holdings) Ltd.
- Lara Italy (Holdco) Limited

Costs recharged by the company in the ordinary course of business to related parties for the year amounted to £426,436 (31 March 2016: £590,075). These recharged costs include a mark up and have been credited against administrative expenses. Net costs charged by related parties in the ordinary course of business to the company for the year amounted to £2,058,285 (31 March 2016: £1,895,688).

Net revenue earned by related parties from the company amounted to £6,305,201 (31 March 2016: £5,799,175).

Net revenue earned by the Company from Houlihan Lokey, Inc. amounted to £17,312,422 (31 March 2016: £3,966,051).

Net revenue earned by the Company from McQueen Holdings Limited amounted to £1,179,462 (31 March 2016: £2,718,197).

As at the year end, there is an interest bearing amount owed by related parties of £27,213,022. The balance is unsecured and repayable on demand, with an interest rate of LIBOR plus 0.7%. An amount of £13,966,043 was owed by related parties as at 31 March 2016. This balance is split between entities as follows:

	31 March 2017	31 March 2016
	£	£
- Houlihan Lokey Inc.	25,599,033	9,317,434
- McQueen Holdings Limited	-	1,438,367
- Houlihan Lokey EMEA, Limited Liability Partnership	787,966	-
- Houlihan Lokey Capital (Asia) Limited	-	351,873
- Houlihan Lokey (China) Limited	646,981	329,712
- Houlihan Lokey (Netherlands) B.V.	84,577	103,737
- Houlihan Lokey G.m.b.H.	21,985	118,603
- Houlihan Lokey (España) S.A.	64,791	1,757,608
- HLHZ Investment Consulting (Beijing) Co., Ltd	7,689	505,360
- Leonardo & Co. S.p.A	-	43,349
	<u>27,213,022</u>	<u>13,966,043</u>

Other

The company incurred a charge related to share-based payments for the year of £2,181,463 (31 March 2016: £2,569,247). There are no outstanding balances on the value of the cost of shares granted, as the right to the repayment of the balance has been waived and treated as additional paid in capital.

Compensation paid to Directors and employees has been disclosed in note 9.

Houlihan Lokey (Europe) Limited

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24. Financial risk management

Capital management

The company manages its capital to ensure it will be able to continue as a going concern and to comply with external capital requirements. This involves an assessment of the risks inherent in its subsidiaries and investments business models and a calculation of capital charges against each identified risk to ensure adequate capitalisation. Share capital and reserves are managed to meet the requirements of its operating subsidiaries, and are disclosed in notes 17 and 18.

Credit risk

As a result of the reorganisation during the year, the Company no longer holds trade and other receivables (see note 13), and so is not exposed to credit risk in relation to those balances. The only other credit risk identified is in relation to credit risk on liquid funds, and this is limited because the Company holds limited cash, and the counterparties are banks with good credit-ratings assigned by international credit-rating agencies.

Currency risk

The company operated internationally and a significant amount of its revenue transactions, as well as assets and liabilities, were denominated in Euros and US Dollars. The group's non-sterling operations generally invoiced revenues and paid costs in the same currency which mitigated the foreign currency exchange rate risk for operations. Sufficient foreign currency for short term foreign currency needs was maintained, and any excess foreign currency was sold into Sterling. As a result of the reorganisation, the Company is no longer exposed to these operational currency risks, and it no longer holds significant assets in foreign currency.

The company's exposure to currency risk is as follows:

	31 March 2017	
	USD £	EURO £
Trade and other receivables	-	-
Intercompany trade receivables / (payables)	-	6,971
Bank balances	-	-
Trade and other accrued payables	-	-
Net balance sheet exposure	-	6,971

	31 March 2016	
	USD £	EURO £
Trade and other receivables	6,441,906	8,458,694
Intercompany trade receivables	408,168	2,134,821
Bank balances	1,181,303	8,165,056
Trade and other accrued payables	(2,801,053)	(2,598,347)
Net balance sheet exposure	5,230,324	16,160,224

The following significant exchange rates applied during the year:

Company	Average rate	
	Year ended 31 March 2017	Year ended 31 March 2016
1 USD	1.30	1.50
1 EURO	1.19	1.37

Sensitivity Analysis

A 10% strengthening of Sterling against the following currencies at 31 March 2017 would decrease reserves (retained earnings and foreign currency translation reserve) on the net balance sheet exposure by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2016.

Company	Year ended 31 March 2017	Year ended 31 March 2016
	£	£
USD	-	(475,484)
EURO	(634)	(1,469,111)

A 10% weakening of Sterling against the above currencies at 31 March 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Liquidity risk

The liquidity risk within the company is managed centrally in conjunction with the company's parent entities. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash on demand to meet its liabilities when due under both normal and stressed conditions. The type of cash instrument used and its maturity will depend on the company's forecasted cash requirements. The group has no external loans and overdrafts, and should any short term funding needs arise, the parent company or other group entities will be sought to provide assistance.

Market risk

The company does not undertake securities trading and therefore does not run market risk, other than as disclosed in currency risk above.

Other risks

The other risks that could potentially affect the group are mainly business and operational in nature. Management are confident that these are mitigated through effective policies and processes and a business model which is designed to operate in all economic environments.

Houlihan Lokey (Europe) Limited

Notes to the financial statements

25. Investment in subsidiary undertakings

	Year ended 31 March 2017	Year ended 31 March 2016
	£	£
Carrying value at the beginning of the year	19,140,144	-
Additions	34,993,701	19,140,144
Impairment	(13,975,275)	-
Carrying value at the end of the year	<u>40,158,569</u>	<u>19,140,144</u>

During the year, the Company contributed its business and assets to new subsidiary Houlihan Lokey EMEA, LLP. The fair value of assets contributed to the subsidiary was £33,963,116 and is outlined in note 26. The contribution represents the value of the Company's investment in that subsidiary. Additional capital contributions of £1,030,585 were also made to Leonardo Asesores Financieros S.A. during the year.

As a result of the reorganization, McQueen Holdings Limited and its subsidiary Houlihan Lokey (Financial Advisory) Limited also transferred the majority of their business and assets into Houlihan Lokey EMEA, LLP, excluding intangible assets and any goodwill. After the transfer, the recoverable value of the investment was deemed to have fallen below its carrying amount, and an impairment charge of £13,975,276 was taken to write down the investment to its recoverable value. There was no cash impact as a result of this write down.

The Company has holdings in group undertakings as follows:

Name of company	% holding 2017	% holding 2016	Country of incorporation	Principal activity
<i>Held directly:</i>				
McQueen Holdings Limited	100%	100%	United Kingdom	Holding company
Houlihan Lokey (España) S.A.	100%	100%	Spain	Corporate finance advisory
Houlihan Lokey EMEA, Limited Liability Partnership	100%	N/a	United Kingdom	Corporate finance advisory
<i>Held indirectly:</i>				
Houlihan Lokey (Financial Advisory) Limited	100%	100%	United Kingdom	Corporate finance advisory

The Company's subsidiary, Houlihan Lokey (Europe) Limited, holds a direct membership in the entity Houlihan Lokey EMEA, LLP. The membership interest gives Houlihan Lokey (Europe) Limited rights to 100% of the partnership assets of that entity, with the exception of the individual capital contributions made by other members to the partnership. Similarly, the other members of the partnership do not hold any rights to the partnership assets, other than for their own capital contributions and any amount owing to them as designated under profit shares. Given this, the ownership of Houlihan Lokey EMEA, LLP is considered to be held 100% by Houlihan Lokey (Europe) Limited, and thus held 100% indirectly by the Company.

26. Discontinued operations

Discontinued operation

As part of an internal reorganisation, the Company contributed its UK business and assets to Houlihan Lokey EMEA Limited Liability Partnership ("LLP") on 1 November 2016. The business and assets of the Company's European branches in Spain, France and Germany were contributed to Houlihan Lokey EMEA LLP on 1 February 2017.

	Year ended 31 March 2017
	£
<i>Results of the discontinued operations</i>	
Revenue	42,473,313
Expenses	(34,382,743)
Profit before tax	8,090,570
Tax on profit	-
Gain/loss recognised on measurement to fair value at transfer	-
Tax on gain/loss on transfer	-
Profit/loss for the year	<u>8,090,570</u>
<i>Cash flows from (used in) discontinued operations</i>	
Net cash used in operating activities	8,567,472
Net cash used in investing activities	(156,427)
Net cash from financing activities	-
Net cash from (used in) discontinued operations	<u>8,411,045</u>
<i>Effect of the disposals on individual assets and liabilities</i>	
Property, plant and equipment	911,186
Inventories	-
Trade receivables	8,540,537
Other receivables (including intercompany balances)	12,177,384
Cash and cash equivalents	30,012,717
Trade payables and employee benefits	(17,678,707)
Net identifiable assets and liabilities	<u>33,963,116</u>
Consideration received, recognised as investment in Houlihan Lokey EMEA, LLP	<u>33,963,116</u>
Net cash inflow	<u>-</u>

No gain or loss arose on a measurement to fair value less cost to sell, and the fair value of assets transferred was recognised as an investment in the entity Houlihan Lokey EMEA, LLP as a result of the transaction. Consideration for the assets transferred was an investment in the entity Houlihan Lokey EMEA, LLP based on the fair value of those assets transferred during the year. There was no net cash inflow or outflow as a result of the transaction, and no intangible assets, including goodwill, were contributed to Houlihan Lokey EMEA, LLP as a result of this transaction.

27. Subsequent events

There are no other events between balance date and the authorisation of these financial statements requiring disclosure.