

Red Topco Limited
Annual report and consolidated
financial statements
Registered number 07639139
For the year ended 31 March 2017

WEDNESDAY



L6BZKYIB

LD5

02/08/2017

#55

COMPANIES HOUSE

Contents

| | |
|---|----|
| Strategic report | 2 |
| Directors' report | 4 |
| Statement of directors' responsibilities in respect of the Strategic Report, Directors' Report and the financial statements | 5 |
| Independent Auditor's Report to the members of Red Topco Limited | 6 |
| Consolidated profit and loss account | 7 |
| Consolidated balance sheet | 8 |
| Company balance sheet | 9 |
| Consolidated Cash Flow Statement | 10 |
| Consolidated statement of Changes in Equity | 11 |
| Company statement of Changes in Equity | 11 |
| Notes to the financial statements | 12 |

Strategic report

Red Topco Limited ('the company' or 'the group') is a specialist recruitment organisation focusing on contract and permanent recruitment in the SAP environment on a worldwide basis. The group provides services to clients in Europe, the Americas and across Asia Pacific.

The group's vision is to be the global SAP recruitment partner of choice.

Business Review

The group had an increase in turnover of £16.6m (2016: increase of £9.7m), and an increase in gross profit of £2.3m (2016: increase of £1.1m).

During the year the group's permanent recruitment division declined in profitability due largely to the loss of experienced consultants and the time taken to train new hirers. In addition, the closure of the group's consulting business and subsequent restructure impacted the business, most significantly the Brazil and US operations, which had to reposition their service offerings in the market place. Significant investment has been made in the Group's employees, through new hires, and infrastructure to help promote future growth.

The table below summarises the performance of the group, and separates exceptional one-off items as well as non-cash items to isolate the underlying performance. It indicates the Group made a small "normalised" profit for the year.

| | FY17 | | | FY16 | | |
|--|----------------|------------------------|-------------------------|----------------|------------------------|-------------------------|
| | Actuals | Exceptional / Non-cash | "Normalised" operations | Actuals | Exceptional / Non-cash | "Normalised" operations |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Turnover | 105,760 | - | 105,760 | 89,152 | - | 89,152 |
| Cost of sales | (84,614) | - | (84,614) | (70,347) | - | (70,347) |
| Gross profit | 21,146 | - | 21,146 | 18,805 | - | 18,805 |
| Direct sales and support costs | (19,863) | - | (19,863) | (17,819) | - | (17,819) |
| Goodwill amortisation and depreciation | (2,771) | (2,771) | - | (2,550) | (2,550) | - |
| Exceptional finance and restructuring | (767) | (767) | - | (1,177) | (1,177) | - |
| Operating (loss)/profit | (2,255) | (3,538) | 1,283 | (2,742) | (3,727) | 985 |
| Bank & loan interest and other costs | (474) | - | (474) | (861) | - | (861) |
| Loan notes interest | (2,159) | (1,959) | (200) | (2,916) | (2,916) | - |
| Amortisation of debt issue costs | (482) | (482) | - | (318) | (318) | - |
| Foreign exchange movements | (173) | (173) | - | (522) | (403) | (119) |
| (Loss)/profit before taxation | (5,543) | (6,152) | 609 | (7,358) | (7,364) | 5 |

Principal Risk and Uncertainty

The performance of the group is significantly affected by changes to underlying economic activity, particularly in its key geographies of the UK and Germany.

Any significant change in the demand for SAP as an enterprise resource planning software solution is another risk facing the business as any decline in the demand for SAP software would likely reduce the demand for talent recruited through the group on either a permanent or contract basis.

The group is also reliant on its ability to recruit, train, develop and retain staff to drive profitable growth.

Key Performance Indicators

A number of key performance indicators are used within the group to monitor performance. The most important of those are noted below.

| | 2017 | 2016 |
|----------------------------|------|------|
| Turnover growth, by region | | |
| UK | 25% | 26% |
| Continental Europe | 15% | 7% |
| Rest of World | 26% | 25% |
| Gross Profit Percentage | 20% | 21% |

Funding

On 1 April 2016, the terms of the company's Secured Eurobond loan notes were amended. From 1 April 2016, the interest charged on the loan notes was reduced to 0%.

During the year the Group finalised the refinancing of the HSBC invoice discounting facility as well as the HSBC term loans held in the intermediate subsidiary company Red Bidco Limited. The exercise was completed in August 2016 and a new £25m invoice discount facility was agreed with Bank Leumi ABL Limited.



A McRae
Director

31 July 2017

5th floor,
33 Gracechurch Street,
London,
EC3V 0BT

Directors' report

The directors present their annual report and the audited financial statements for the year to 31 March 2017.

Principal activities

The principal activity of the group is the provision of IT recruitment and staffing services.

Dividends

The directors do not recommend payment of a dividend (2017: £nil).

Directors

The directors who held office during the period were as follows:

A McRae
R Marshall
L Hayman (resigned 2 May 2017)
J Sealy

Political and charitable contributions

During the year the group made no charitable contributions (2016: £nil) and no political contributions (2016: £nil).

Provision of information to auditor

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 Company's auditor is 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 Company's auditor is aware of that information.

Auditor

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

By order of the board



A McRae
Secretary

5th floor,
33 Gracechurch Street,
London,
EC3V 0BT

31 July 2017

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, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent 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 members of Red Topco Limited

We have audited the financial statements of Red Topco Limited for the year ended 31 March 2017 set out on pages 7 to 28. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including *FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 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 group's and of the parent company's affairs as at 31 March 2017 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK 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 the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

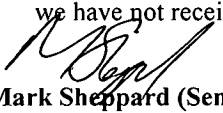
Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.


Mark Sheppard (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Forest Gate
Brighton Road
Crawley
RH11 9PT

31 July 2017

Consolidated profit and loss account
for the year ended 31 March 2017

| | <i>Note</i> | 2017 £'000 | 2016 £'000 |
|-----------------------------|-------------|-----------------------|-----------------------|
| Turnover | 2 | 105,760 | 89,152 |
| Cost of sales | | (84,614) | (70,347) |
| Gross profit | | <u>21,146</u> | <u>18,805</u> |
| Administration expenses | 3 | (23,401) | (21,547) |
| Operating loss | | <u>(2,255)</u> | <u>(2,742)</u> |
| Net finance expense | 6 | (3,288) | (4,616) |
| Loss before taxation | 3 | <u>(5,543)</u> | <u>(7,358)</u> |
| Taxation on loss | 7 | (298) | (334) |
| Loss for the year | | <u><u>(5,841)</u></u> | <u><u>(7,692)</u></u> |

All amounts are from continuing operations.

The notes on pages 12 to 28 form part of these financial statements.

Consolidated Other Comprehensive Income
for year ended 31 March 2017

| | <i>Note</i> | 2017 £000 | 2015 £000 |
|---|-------------|-----------------------|-----------------------|
| Loss for the year | | <u>(5,841)</u> | <u>(7,692)</u> |
| Other comprehensive income: | | | |
| Foreign exchange differences on translation of foreign operations | | (294) | (314) |
| Other comprehensive income for the year, net of income tax | | (294) | (314) |
| Total comprehensive income for the year | | <u><u>(6,135)</u></u> | <u><u>(8,006)</u></u> |

The accompanying notes form part of these financial statements.

Consolidated balance sheet
as at 31 March 2017

| | <i>Notes</i> | 2017 £'000 | 2016 £'000 |
|--|--------------|-----------------|-----------------|
| Fixed assets | | | |
| Goodwill | 8 | 26,275 | 28,115 |
| Tangible assets | 9 | <u>1,080</u> | <u>1,116</u> |
| | | 27,355 | 29,231 |
| Current assets | | | |
| Debtors | 11 | 26,158 | 21,393 |
| Cash at bank and in hand | | <u>1,188</u> | <u>919</u> |
| | | 27,346 | 22,312 |
| Creditors: amounts falling due within one year | 12 | (34,324) | (27,088) |
| Net current (liabilities)/assets | | <u>(6,978)</u> | <u>(4,776)</u> |
| Total assets less current liabilities | | 20,377 | 24,455 |
| Creditors: amounts falling due after more than one year | 13 | (40,051) | (49,524) |
| Net liabilities | | <u>(19,674)</u> | <u>(25,069)</u> |
| Capital and reserves | | | |
| Called up share capital | 14 | 125 | 125 |
| Share premium account | 14 | 210 | 210 |
| Own shares held | 14 | (51) | (45) |
| Capital contribution reserve | 14 | 11,536 | - |
| Profit and loss account | | (31,494) | (25,359) |
| Equity shareholders' deficit | | <u>(19,674)</u> | <u>(25,069)</u> |

The notes on pages 12 to 28 form part of these financial statements.

These financial statements were approved by the board of directors on 31 July 2017 and were signed on its behalf by:


A McRae
Director

Company balance sheet
at 31 March 2017

| | <i>Notes</i> | 2017 £'000 | 2016 £'000 |
|--|--------------|-----------------------------|-----------------------------|
| Fixed assets | | | |
| Investments | <i>10</i> | - | - |
| Current assets | | | |
| Debtors | <i>11</i> | 67 | 68 |
| Creditors: amounts falling due within one year | <i>12</i> | (1,004) | (723) |
| Net current liabilities | | <u>(937)</u> | <u>(655)</u> |
| Total assets less current liabilities | | <u>(937)</u> | <u>(655)</u> |
| Creditors: amounts falling due after more than one year | <i>13</i> | (2,530) | (2,434) |
| Net liabilities | | <u><u>(3,467)</u></u> | <u><u>(3,089)</u></u> |
| Capital and reserves | | | |
| Called up share capital | <i>14</i> | 125 | 125 |
| Share premium account | <i>14</i> | 210 | 210 |
| Own shares held | <i>14</i> | (51) | (45) |
| Profit and loss account | | (3,751) | (3,379) |
| Equity shareholders' deficit | | <u><u>(3,467)</u></u> | <u><u>(3,089)</u></u> |

The notes on pages 12 to 28 form part of these financial statements.

These financial statements were approved by the board of directors on 31 July 2017 and were signed on its behalf by:



A McRae
Director

Consolidated Cash Flow Statement
for year ended 31 March 2017

| | <i>Notes</i> | 2017 £000 | 2016 £000 |
|--|--------------|----------------------------|----------------------------|
| Cash flows from operating activities | | | |
| Loss for the year | | (5,841) | (7,692) |
| Adjustments for: | | | |
| Depreciation, amortisation and impairment | | 2,421 | 2,550 |
| Foreign exchange losses / (gains) | | 173 | 522 |
| Interest payable & other charges | | 3,115 | 4,094 |
| Taxation | | 298 | 334 |
| (Increase) in trade and other debtors | | (4,835) | (2,319) |
| Increase/(decrease) in trade and other creditors | | 4,156 | 1,292 |
| Foreign Exchange Movements | | - | (269) |
| Tax paid | | (278) | (519) |
| Net cash from operating activities | | <u>(791)</u> | <u>(2,007)</u> |
| Cash flows from investing activities | | | |
| Purchase of tangible fixed assets | | (545) | (1,121) |
| Net cash from investing activities | | <u>(545)</u> | <u>(1,121)</u> |
| Cash flows from financing activities | | | |
| (Purchase)/Sale of own shares | | (5) | (6) |
| Proceeds from new loan | | - | 2,500 |
| Interest paid | | (661) | (677) |
| Repayment of borrowings | | (5,985) | (484) |
| Net cash from financing activities | | <u>(6,651)</u> | <u>1,333</u> |
| Net (decrease) in cash and cash equivalents | | (7,987) | (1,795) |
| Cash and cash equivalents at 01 April | | (3,315) | (1,520) |
| Cash and cash equivalents at 31 March | 22 | <u><u>(11,302)</u></u> | <u><u>(3,315)</u></u> |

The notes on pages 12 to 28 form part of these financial statements.

Consolidated statement of Changes in Equity
for the year ended 31 March 2017

| | Share Capital £000 | Share Premium £000 | Own Shares £000 | Capital Contb'n £000 | Profit & Loss £000 | Shareholder's Equity £000 |
|--|--------------------------|--------------------------|-----------------------|----------------------------|--------------------------|---------------------------------|
| Balance at 01 April 2016 | 125 | 210 | (45) | - | (25,359) | (25,069) |
| Comprehensive income | - | - | - | - | - | - |
| Profit & loss | - | - | - | - | (5,841) | (5,841) |
| Other comprehensive income | - | - | - | - | (294) | (294) |
| Total comprehensive income | - | - | - | - | (6,135) | (6,135) |
| Transactions with owners, recorded directly in equity | - | - | - | 11,536 | - | 11,536 |
| Own shares acquired | - | - | (19) | - | - | (19) |
| Disposal of own shares | - | - | 13 | - | - | 13 |
| Balance at 31 March 2017 | 125 | 210 | (51) | 11,536 | (31,494) | (19,674) |

Company statement of Changes in Equity
for the year ended 31 March 2017

| | Share Capital £000 | Share Premium £000 | Own Shares £000 | Profit & Loss £000 | Shareholder's Equity £000 |
|-----------------------------------|--------------------------|--------------------------|-----------------------|--------------------------|---------------------------------|
| Balance at 01 April 2016 | 125 | 210 | (45) | (3,379) | (3,089) |
| Comprehensive income | - | - | - | - | - |
| Profit & loss | - | - | - | (372) | (372) |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | - | - | (372) | (372) |
| Own shares acquired | - | - | (19) | - | (19) |
| Disposal of own shares | - | - | 13 | - | 13 |
| Balance at 31 March 2017 | 125 | 210 | (51) | (3,751) | (3,467) |

The notes on pages 12 to 28 form part of these financial statements.

Notes to the financial statements (forming part of the financial statements)

1 Accounting policies

Red Topco Limited (the “Company”) is a company limited by shares and incorporated and domiciled in the UK.

These Group and parent company financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (“FRS 102”) as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time;
- No separate parent company Cash Flow Statement with related notes is included; and
- Key Management Personnel compensation has not been included a second time.
- Certain disclosures required by FRS 102.26 Share Based Payments; and,
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 23.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

Notes (continued)

1.2 Going concern

The financial statements have been prepared on a going concern basis, which assumes that the company will continue in operational existence for the foreseeable future, notwithstanding the fact that the Group has net liabilities of £19.7 million at 31 March 2017 (2016: £25.1 million). The directors believe this is appropriate for the following reasons.

In August 2016, the group refinanced its term loan facilities with more flexible invoice discount facilities which provide significantly greater levels of facility than previously available. Other than those relating to the new invoice discount facility, the group has no interest or debt repayment obligations within the next twelve months. Based on detailed cashflow projections prepared by the group through to 31 March 2018 and less detailed projections through to 31 March 2020, including sensitivity analysis on key assumptions, the directors consider that the Company and the Group will continue to operate within the amended facilities.

1.3 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 March 2017. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In the parent financial statements, investments in subsidiaries are carried at cost less impairment.

1.4 Foreign currency

Transactions in foreign currencies are translated to the Group companies' functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the profit and loss account.

The assets and liabilities of foreign operations are translated to the Group's presentational currency, Sterling, 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. Foreign exchange differences arising on retranslation are recognised in other comprehensive income.

1.5 Classification of financial instruments issued by the group

In accordance with FRS 102.22, financial instruments issued by the group are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and
- where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the entity's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Notes (continued)

1.6 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

1.7 Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Cash flow hedges

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in OCI is included in the initial cost or other carrying amount of the asset or liability. Alternatively, when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss. When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately

Notes (continued)

1 Accounting policies (continued)

1.8 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition, a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.20 below.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Computer equipment: 20-50%

Fixtures and fittings: 20-50% years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

1.9 Business combinations

FRS 102.35 grants certain exemptions from the full requirements of FRS 102 in the transition period. The Company elected not to restate business combinations that took place prior to 1 April 2014. In respect of acquisitions prior to the application date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under old UK GAAP. Intangible assets previously included in goodwill, are not recognised separately.

1.10 Goodwill

Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Amortisation

Goodwill is amortised on a straight-line basis over its useful life. Goodwill has no residual value. The finite useful life of goodwill is estimated to be 20 years

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill and other intangible assets are tested for impairment in accordance with Section 27 Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

Notes (continued)

1 Accounting policies (continued)

1.11 Impairment excluding deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the entity's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units, or ("CGU") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or if it has been integrated then the entire group of entities into which it has been integrated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes (continued)

1 Accounting policies (continued)

1.12 Employee benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Termination benefits

Termination benefits are recognised as an expense when the entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the entity has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Own shares held by ESOP trust

Transactions of the Company-sponsored ESOP trust are treated as being those of the Company and are therefore reflected in the company and group financial statements. In particular, the trust's purchases and sales of shares in the Company are debited and credited directly to equity.

1.13 Provisions

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the parent Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability in its individual financial statements until such time as it becomes probable that the company will be required to make a payment under the guarantee.

1.14 Turnover

The turnover represents amounts receivable for services, including reimbursed contractor expenses, net of VAT and trade discounts. Turnover from contract assignments is recognised when the services are performed based on hours worked by the consultants placed. Turnover from permanent placements is recognised at the start date of placing a candidate with a client. Provisions are made for possible cancellations of placements shortly after the commencement of employment.

Notes (continued)

1 Accounting policies (continued)

1.15 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

1.16 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss 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 on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes (continued)

2 Segmental information

| | 2017 Turnover £'000 | 2016 Turnover £'000 |
|---------------------------|---------------------------|---------------------------|
| Geographical destination: | | |
| UK | 17,447 | 13,919 |
| Rest of Europe | 67,990 | 59,133 |
| Rest of the World | 20,323 | 16,100 |
| | <u>105,760</u> | <u>89,152</u> |

3 Loss on ordinary activities before taxation

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| <i>Loss on ordinary activities before taxation is stated</i> | | |
| <i>After charging</i> | | |
| Auditors' remuneration: | | |
| Group: | | |
| Audit of these financial statements | 50 | 47 |
| Non-audit fees | - | - |
| Company: | | |
| Audit of these financial statements | 3 | 2 |
| Depreciation of fixed assets | 573 | 478 |
| Amortisation of goodwill | 1,841 | 1,841 |
| Operating lease rentals – plant and machinery | 9 | 8 |
| Operating lease rentals – other | <u>1,025</u> | <u>562</u> |

In addition, non-recurring costs of £762,000 arose in respect of refinancing costs (£282,000), Executive settlement costs (£245,000), the closure of the Brazil office (£106,000), and change management (£128,000).

Non-recurring costs in the prior year totalled £1.2 million relating principally to software upgrades and development, property relocation, closure of the consulting business, executive settlement costs and write of overseas investment.

4 Remuneration of directors

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Directors' emoluments | 510 | 472 |
| Company contributions to money purchase pension schemes | 13 | 9 |
| Amounts paid to third parties in respect of directors' services | 40 | 40 |
| | <u>563</u> | <u>521</u> |

The aggregate of emoluments of the highest paid director was £240,625 (2016: £211,632) and company pension contributions of £13,125 (2016: £nil) were made to a money purchase scheme on their behalf. Contributions to money purchase pension schemes were made for three directors.

Notes (continued)

5 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

| | 2017 No. | 2016 No. |
|----------------|-------------|-------------|
| Administration | 58 | 49 |
| Sales | 154 | 153 |
| | <u>212</u> | <u>202</u> |

The aggregate payroll costs of these persons were as follows:

| | 2017 £'000 | 2016 £'000 |
|-----------------------|---------------|---------------|
| Wages and salaries | 12,142 | 10,733 |
| Social security costs | 1,547 | 1,422 |
| Other pension costs | 186 | 152 |
| | <u>13,875</u> | <u>12,307</u> |

6 Finance income and expense

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Finance expenses and similar charges | | |
| Bank interest and invoice finance costs | 370 | 305 |
| Bank loans | 104 | 555 |
| Secured loan notes | 2,159 | 2,916 |
| Amortisation of debt issue costs | 482 | 318 |
| | <u>3,115</u> | <u>4,094</u> |
| Loss/(gain) on foreign exchange | 173 | 522 |
| Net interest payable | <u>3,288</u> | <u>4,616</u> |

Notes (continued)

7 Taxation

Analysis of charge in year

| | 2017 £'000 | 2016 £'000 |
|---------------------------------------|---------------|---------------|
| <i>Current tax</i> | | |
| UK tax on income for the year | - | 40 |
| Foreign Tax relief/other relief | - | (40) |
| Overseas tax | 326 | 378 |
| Total current tax | <u>326</u> | <u>378</u> |
| <i>Deferred tax</i> | | |
| Movement in deferred tax for the year | (24) | (56) |
| Adjustment in respect of prior years | (15) | (2) |
| Effect of tax rate change | 11 | 14 |
| | <u>(28)</u> | <u>(44)</u> |
| Tax on (loss)/ profit | <u>298</u> | <u>334</u> |

The current tax charge for the period is higher than the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

| | 2017 £'000 | 2016 £'000 |
|---|---------------|----------------|
| <i>Current tax reconciliation</i> | | |
| Loss before taxation | <u>5,543</u> | <u>(7,358)</u> |
| Current tax at 20% (2016: 20%) | (1,109) | (1,472) |
| <i>Effects of:</i> | | |
| Expenses not deductible for tax purposes | 168 | 169 |
| Goodwill amortisation not deductible for tax purposes | 438 | 373 |
| Other timing differences – no deferred tax recognised | 145 | - |
| Adjustment in respect of prior years | (15) | (2) |
| Income not taxable | | (68) |
| Overseas tax | 220 | 265 |
| Interest disallowed under ATCA agreement with HMRC | 400 | 597 |
| Change in tax rate | 11 | 14 |
| Losses carried forward – no deferred tax recognised | 40 | 458 |
| Total tax charge (see above) | <u>298</u> | <u>334</u> |

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. A further reduction to the UK corporation tax rate was announced in the 2016 Budget to further reduce the tax rate to 17% (to be effective from 1 April 2020). This will reduce the company's future current tax charge accordingly. There are no other factors that may significantly impact the future tax charge.

Notes (continued)

8 Intangible fixed assets

| | Goodwill £'000 |
|------------------------------|-------------------|
| Group | |
| Cost | |
| At beginning and end of year | 36,864 |
| | <u>36,864</u> |
| Amortisation | |
| At beginning of year | (8,748) |
| Charged in year | (1,841) |
| At end of year | <u>(10,589)</u> |
| Net book value | |
| At 31 March 2017 | <u>26,275</u> |
| At 31 March 2016 | <u>28,115</u> |

The directors consider acquisitions separately for the purpose of determining the amortisation period of any goodwill that arises. The goodwill is being amortised over a period of 20 years, being the directors' best estimate of its useful economic life.

9 Tangible fixed assets

| | Computer equipment £'000 | Furniture & office equipment £'000 | Total £'000 |
|-----------------------|--------------------------------|---|----------------|
| Group | | | |
| Cost | | | |
| At beginning of year | 644 | 829 | 1,473 |
| Additions | 260 | 291 | 551 |
| Disposals | (29) | - | (29) |
| At end of year | <u>875</u> | <u>1,120</u> | <u>1,995</u> |
| Depreciation | | | |
| At beginning of year | 289 | 69 | 357 |
| Charge for year | 363 | 210 | 573 |
| Disposals | (15) | - | (15) |
| At end of year | <u>636</u> | <u>279</u> | <u>915</u> |
| Net book value | | | |
| At 31 March 2017 | <u>239</u> | <u>841</u> | <u>1,080</u> |
| At 31 March 2016 | <u>356</u> | <u>760</u> | <u>1,116</u> |

Notes (continued)

10 Fixed asset investments - Company

| | Shares in group undertaking £'000 |
|---|--|
| Cost at beginning and end of year | 228 |
| Provision at beginning and end of year | (228) |
| Net book value at beginning and end of year | - |

The company's subsidiary undertakings at the year-end are as follows:

| | Country of incorporation | Principal activity | Direct/ Indirect | Class and percentage of shares held in Company |
|--|-----------------------------|--------------------|---------------------|---|
| Subsidiary undertakings | | | | |
| Red Commerce Limited | England & Wales | IT staffing | Indirect | Ordinary 100% |
| Red Commerce GmbH | Germany | IT staffing | Indirect | Ordinary 100% |
| Rouge Commerce AB* | Sweden | IT staffing | Indirect | Ordinary 100% |
| Rouge 1 Limited | England & Wales | Holding company | Indirect | Ordinary 100% |
| Rouge 2 Limited | England & Wales | Holding company | Indirect | Ordinary 100% |
| Red Bidco Limited | England & Wales | Holding company | Indirect | Ordinary 100% |
| Red Midco Limited | England & Wales | Holding company | Direct | Ordinary 100% |
| Red Commerce Schweiz GmbH | Switzerland | IT staffing | Indirect | Ordinary 100% |
| Red Commerce Inc | USA | IT staffing | Indirect | Ordinary 100% |
| Red Commerce Consultoria E Recrutamento LTDA* | Brazil | IT staffing | Indirect | Ordinary 100% |

*Denotes companies that have had offices closed in the current and previous years and as such, do not have registered office

The registered addresses of the subsidiaries are as follows:

| Subsidiary undertaking | Registered Address |
|---------------------------|---|
| Red Bidco Limited | 5 th Floor 33 Gracechurch St, London, England EC3V 0BT |
| Rouge 1 Limited | 5 th Floor 33 Gracechurch St, London, England EC3V 0BT |
| Rouge 2 Limited | 5 th Floor 33 Gracechurch St, London, England EC3V 0BT |
| Red Commerce Limited | 5 th Floor 33 Gracechurch St, London, England EC3V 0BT |
| Red Commerce GmbH | Josephspitalstrasse 15, 80331 Munich |
| Red Commerce Inc | 11 th Floor, 30 Montgomery Street, Jersey City, NJ 07302 |
| Red Commerce Schweiz GmbH | Bärengasse 29, 8001 Zurich |

Notes (continued)

11 Debtors

| | Group 2017 £'000 | Company 2017 £'000 | Group 2016 £'000 | Company 2016 £'000 |
|---------------------------------------|------------------------|--------------------------|------------------------|--------------------------|
| Trade debtors | 22,693 | - | 18,247 | - |
| Other debtors | 394 | 1 | 510 | 2 |
| Prepayments and accrued income | 2,917 | - | 2,510 | - |
| Deferred tax | 154 | - | 126 | - |
| Corporation tax | - | 51 | - | 51 |
| Amounts due from Subsidiary Companies | - | 15 | - | 15 |
| | <u>26,158</u> | <u>67</u> | <u>21,393</u> | <u>68</u> |

Deferred tax principally relates to differences between depreciation and capital allowances.

12 Creditors: amounts falling due within one year

| | Group 2017 £'000 | Company 2017 £'000 | Group 2016 £'000 | Company 2016 £'000 |
|--|------------------------|--------------------------|------------------------|--------------------------|
| Invoice finance | 12,490 | - | 4,234 | - |
| Trade creditors | 10,451 | - | 9,098 | - |
| Taxation and social security | 480 | - | 520 | - |
| Accruals and deferred income | 7,678 | 28 | 4,927 | - |
| Other creditors | 34 | - | 23 | - |
| Loans payable within 1 year | 2,754 | - | 7,895 | - |
| Corporation tax payable | 437 | - | 391 | - |
| Amounts owed to subsidiary undertaking | - | 976 | - | 723 |
| | <u>34,324</u> | <u>1,004</u> | <u>27,088</u> | <u>723</u> |

In August 2016, the Company refinanced the HSBC invoice discounting facility as well as the HSBC term loans held in the intermediary parent company Red Bidco Limited. A new £25m invoice discount facility was agreed with Bank Leumi ABL Limited, and all balances with HSBC was repaid in full.

Loans payable within 1 year relate to Red Commerce UK Limited, an indirect subsidiary of the company, and a short term working capital loan from the ultimate controlling party, Dunedin Capital Partners. The loan attracts annual interest of 8% and is payable on demand. It is expected to be repaid within 1 year of the aforementioned refinance arrangement.

Bank loans due within one year are shown net of nil (2016: £260,000) unamortised loan arrangement fees.

The invoice discounting facility is secured on the trade receivables.

Notes (continued)

13 Creditors: amounts falling due after more than one year

| | Group 2017 £'000 | Company 2017 £'000 | Group 2016 £'000 | Company 2016 £'000 |
|------------|------------------------|--------------------------|------------------------|--------------------------|
| Loan notes | 40,051 | 2,530 | 49,524 | 2,434 |
| | <u>40,051</u> | <u>2,530</u> | <u>49,524</u> | <u>2,434</u> |

Analysis of debt:

| | Group 2017 £ | Company 2017 £ | Group 2016 £ | Company 2016 £ |
|--------------------------------------|--------------------|----------------------|--------------------|----------------------|
| Debt can be analysed as falling due: | | | | |
| In one year or less, or on demand | 2,754 | - | 7,895 | - |
| Between one and two years | - | - | - | - |
| Between two and five years | 39,817 | 2,530 | 49,524 | 2,434 |
| Over five years | - | - | - | - |
| | <u>42,571</u> | <u>2,530</u> | <u>57,419</u> | <u>2,434</u> |
| Unamortised loan fee | 234 | - | 624 | - |
| Total debt | <u>42,805</u> | <u>2,530</u> | <u>58,043</u> | <u>2,434</u> |

The Company has issued Secured Eurobond loan notes. Interest charges on the loan notes were reduced to 8% from 1 April 2015 and following amendments to the loan notes terms on 1 April 2016 the interest charge was reduced to 0%. Interest may be rolled up annually. The loan notes were redeemable at par on 31 December 2018, following an extension agreed on the 10th of August, this was extended to 31 December 2019. The loan notes are secured by debentures given by the Company, its Parent Company and its subsidiary companies. The Eurobond A loan notes are listed on the Channel Islands Stock Exchange. At 31 March 2017 the nominal value of A and B Eurobond loan notes outstanding total £28.8million and £7.5 million respectively. Accrued interest on each total £8.1million and £1.6 million respectively. The contracted payment date of both principal and interest for A and B Eurobonds, totalling £46 million, is 31 December 2019. The carrying value of this liability at 31 March 2017, being the present value of the future liability, is £37.2 million.

The carrying value of outstanding LTIP loan notes, including accrued interest, is £0.5million, and equates to its fair value.

The carrying value of outstanding Management loan notes issued by the company, including accrued interest, is £2.5 million, and equates to its fair value. These are due for repayment in December 2018. The loan notes accrue interest at 12% for loan notes held by current employees and at the Barclays 12 month deposit rate for former employees.

Notes (continued)

14 Called up share capital

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Authorised: | | |
| Equity: | | |
| 203,599 'A' ordinary shares of £0.10 each | 20 | 20 |
| 14,902 'B' ordinary shares of £0.10 each | 1 | 1 |
| 95,547 'C' ordinary shares of £1.00 each | 96 | 96 |
| 22,950 'D' ordinary shares of £0.10 each | 2 | 2 |
| 10,000 'G' ordinary shares of £0.10 each | 1 | 1 |
| 4,081 'Red 1' ordinary shares of £0.10 each | 1 | 1 |
| 4,452 'Red 2' ordinary shares of £1.00 each | 4 | 4 |
| | <u>125</u> | <u>125</u> |
| Allotted, called up and fully paid | | |
| Equity: | | |
| 203,599 'A' ordinary shares of £0.10 each | 20 | 20 |
| 14,902 'B' ordinary shares of £0.10 each | 1 | 1 |
| 95,547 'C' ordinary shares of £1.00 each | 96 | 96 |
| 22,950 'D' ordinary shares of £0.10 each | 2 | 2 |
| 8,130 'G' ordinary shares of £0.10 each | 1 | 1 |
| 4,081 'Red 1' ordinary shares of £0.10 each | 1 | 1 |
| 4,452 'Red 2' ordinary shares of £1.00 each | 4 | 4 |
| | <u>125</u> | <u>125</u> |

15 Reserves

The share premium account represents the excess of the value of shares issued over their nominal value.

During the previous year the Company set up an ESOP trust to hold shares to be allocated to employees. Since inception it has acquired shares from both employees who left the group and from Dunedin Buyout Fund II L.P. (which had acquired the shares from employees who had left the group before the establishment of the ESOP trust) and it has also sold shares to certain employees. The net consideration paid as at 31 March 2017 was £60,000 and this balance is held with the "Own shares held" reserve within shareholders' funds. The number of shares within the ESOP trust were 235,135 (2016: 200,294).

16 Capital Contribution

| | 2017 £'000 | 2016 £'000 |
|-------------------------------------|---------------|---------------|
| Capital contribution reserve | <u>11,536</u> | <u>-</u> |

On 1 April 2016 the interest rate charged on the Eurobond loan notes held by the principal shareholder was reduced from 8% to 0% until redemption on 31 December 2019. This change in terms has given rise to a gain which is being treated as a capital contribution given that the fair value of the loans at 1 April 2016 was reduced by £11.5million, being the impact of discounting the future obligation to its present value.

Notes (continued)

17 Operating leases

Non-cancellable operating lease rentals are payable as follows:

| | Group 2017 £'000 | Group 2016 £'000 | Company 2017 £'000 | Company 2016 £'000 |
|---------------------------------------|------------------------|------------------------|--------------------------|--------------------------|
| <i>Operating leases which expire:</i> | | | | |
| Less than one year | 1,127 | 673 | - | - |
| Between one and five years | 3,653 | 2,074 | - | - |
| More than five years | - | 2,032 | - | - |
| | <u>4,780</u> | <u>4,779</u> | <u>-</u> | <u>-</u> |

During the year £1,040k, was recognised as an expense in the profit and loss account in respect of operating leases (2016: £570k)

18 Pension scheme

The group operates a group personal pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £186,000 (2016: £152,000).

19 Ultimate parent company and ultimate controlling party

Red Topco Limited is the ultimate parent company of its group and the highest level at which consolidated financial statements are prepared. The ultimate controlling party is Dunedin Capital Partners (GP) Ltd, being the administrator of the investment fund which holds a controlling stake in Red Topco Limited.

20 Related party transactions

During the period, the group paid fees to Dunedin LLP of £40,000 (2016: £40,000) for the services of one director. This amount is included in directors' remuneration in note 4. The amount outstanding at the period end was £nil (2016: £nil).

Transactions with key management personnel

Total compensation of key management personnel in the year amounted to £550,000 (2016: £521,000).

Management loan notes and accrued interest outstanding at the year-end amounted to £2,530,198 (2016: £2.4million)

21 Contingent liabilities

The company has provided a charge over all its assets to the group's bankers as security against amounts owed to the bank. At 31 March 2017 amounts owed totalled £12.5m (2016: £9.5m).

The company has guaranteed loan notes issued by Red Midco Limited. At 31 March 2017 amounts owed under the loan notes totalled £42.1m (2016: £47.1m).

22 Cash and cash equivalents/ bank overdrafts

| | 2017 £'000 | 2016 £'000 |
|--------------------------|-----------------|----------------|
| Cash at bank and in hand | 1,188 | 919 |
| Bank overdrafts | (12,490) | (4,234) |
| | <u>(11,302)</u> | <u>(3,315)</u> |

Notes (continued)

23 Accounting estimates and judgements

Trade debtors

In its determination of the valuation of trade debtors, including the allowance for doubtful accounts, management relies on current customer information, which include customer creditworthiness and past experiences, and its planned course of action. If future collections differ from estimates, future earnings could be affected.

Goodwill

In its determination of the valuation of goodwill, management relies on the forecast trading performance and outlook of its subsidiary undertakings. If actual performance differs from estimates, future earnings could be affected.

Impairment reviews

The testing of goodwill for impairment is determined by cash flow projections and assumptions applied to growth rates and discount rates.

FRS 102 requires management to review goodwill for impairment whenever there is an indicator of impairment. Impairment testing requires management to judge whether the carrying value of assets can be supported by the net present value (npv) of future cash flows that they generate. Calculating the npv of the future cash flows requires assumptions to be made in respect of highly uncertain matters including management's expectations of:

- Growth in EBITDA;
- Long term growth rates; and
- Appropriate discount rates to reflect the risks involved

Management prepares three year forecasts for the Group's operations, which are used to estimate values in use.