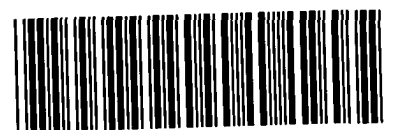


Red Topco Limited
Annual report and consolidated
financial statements
Registered number 07639139
For the year ended 31 March 2018

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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 £17.9m (2017: increase of £16.6m), and an increase in gross profit of £3.6m (2017: increase of £2.3m). Contract recruitment saw an 8% increase in gross profit against the prior year, whilst permanent recruitment increased by 14%.

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 "normalised" profit before tax for the year of £2.8million, an increase of £2.2m on the prior year

	FY18			FY17		
	Actuals	Exceptional / Non-cash	"Normalised" operations	Actuals	Exceptional / Non-cash	"Normalised" operations
	£000	£000	£000	£000	£000	£000
Turnover	123,637	-	123,637	105,760	-	105,760
Cost of sales	(98,931)	-	(98,931)	(84,614)	-	(84,614)
Gross profit	24,706	-	24,706	21,146	-	21,146
Direct sales and support costs	(21,281)	-	(21,281)	(19,863)	-	(19,863)
Goodwill amortisation and depreciation	(2,271)	(2,271)	-	(2,771)	(2,771)	-
Exceptional finance and restructuring	(879)	(879)	-	(767)	(767)	-
Operating (loss)/profit	275	(3,150)	3,425	(2,255)	(3,538)	1,283
Bank & loan interest and other costs	(492)	-	(492)	(474)	-	(474)
Loan notes interest	(3,189)	(3,189)	(125)	(2,159)	(1,959)	(200)
Amortisation of debt issue costs	(266)	(266)	-	(482)	(482)	-
Foreign exchange movements	(932)	(932)	-	(173)	(173)	-
(Loss)/profit before taxation	(4,604)	(7,413)	2,808	(5,543)	(6,152)	609

On 7th May 2018 Andrew McRae stepped down as CEO and was replaced by Ross Eades.

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.

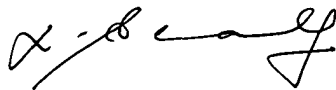
Any significant change in the demand for SAP as an enterprise resource planning software solution is another risk facing the business as any decline in the demand for SAP software would likely reduce the demand for talent recruited through the group on either a permanent or contract basis.

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.

	2018	2017
Turnover growth, by region		
UK	-0.6%	25%
Continental Europe	28%	15%
Rest of World	-4.8%	26%
Gross Profit Margin Percentage	20%	20%



J Sealy
Director

27 July 2018

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 2018.

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:

Ross Eades (appointed 7th May 2018)
A McRae
R Marshall
J Sealy

On 7th May, Andrew McRae stepped down of CEO of the group and was replaced by Ross Eades. Andrew McRae was appointed as a non-executive director effective from May 2018.

Political and charitable contributions

During the year the group made no charitable contributions (2017: *£nil*) and no political contributions (2017: *£nil*).

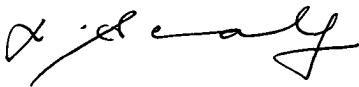
Provision of information to auditor

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 auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



J Sealy
Director

27 July 2018

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

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 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the members of Red Topco Limited

Opinion

We have audited the financial statements of Red Topco Limited ("the company") for the year ended 30 March 2018 which comprise the Consolidated profit and loss account, Consolidated balance sheet, Company balance sheet, Consolidated Cash Flow Statement, Consolidated statement of Changes in Equity, Company Statement of Changes in Equity, and related notes, including the accounting policies in note 1.

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 2018 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; 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

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to

Independent Auditor's Report to the members of Red Topco Limited *(continued)*

fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Mark Sheppard (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 Forest Gate
Brighton Road
Crawley
RH11 9PT

27 July 2018

Consolidated profit and loss account
for the year ended 31 March 2018

	<i>Note</i>	2018 £'000	2017 £'000
Turnover	2	123,637	105,760
Cost of sales		(98,931)	(84,614)
Gross profit		<u>24,706</u>	<u>21,146</u>
Administration expenses	3	(24,431)	(23,401)
Operating profit/(loss)		<u>275</u>	<u>(2,255)</u>
Net finance expense	6	(4,879)	(3,288)
Loss before taxation	3	<u>(4,604)</u>	<u>(5,543)</u>
Taxation on loss	7	(473)	(298)
Loss for the year		<u><u>(5,077)</u></u>	<u><u>(5,841)</u></u>

All amounts are from continuing operations.

The notes on pages 13 to 29 form part of these financial statements.

Consolidated Other Comprehensive Income
for year ended 31 March 2018

	<i>Note</i>	2018 £000	2017 £000
Loss for the year		<u>(5,077)</u>	<u>(5,841)</u>
Other comprehensive income:			
Foreign exchange differences on translation of foreign operations		467	(294)
Other comprehensive income for the year, net of income tax		467	(294)
Total comprehensive income for the year		<u><u>(4,610)</u></u>	<u><u>(6,135)</u></u>

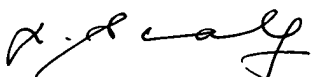
The accompanying notes form part of these financial statements.

Consolidated balance sheet
as at 31 March 2018

	<i>Notes</i>	2018 £'000	2017 £'000
Fixed assets			
Goodwill	8	24,434	26,275
Tangible assets	9	794	1,080
		<u>25,228</u>	<u>27,355</u>
Current assets			
Debtors	11	25,908	26,158
Cash at bank and in hand		1,228	1,188
		<u>27,136</u>	<u>27,346</u>
Creditors: amounts falling due within one year	12	(36,518)	(34,324)
Net current (liabilities)/assets		<u>(9,382)</u>	<u>(6,978)</u>
Total assets less current liabilities		<u>15,846</u>	<u>20,377</u>
Creditors: amounts falling due after more than one year	13	(40,119)	(40,051)
Net liabilities		<u>(24,273)</u>	<u>(19,674)</u>
Capital and reserves			
Called up share capital	14	125	125
Share premium account	14	230	230
Own shares held	14	(50)	(61)
Capital contribution reserve	14	11,536	11,536
Profit and loss account		(36,114)	(31,504)
Equity shareholders' deficit		<u>(24,273)</u>	<u>(19,674)</u>

The notes on pages 13 to 29 form part of these financial statements.

These financial statements were approved by the board of directors on 27 July 2018 and were signed on its behalf by:



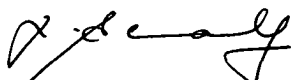
J Sealy
Director

Company balance sheet
at 31 March 2018

	<i>Notes</i>	2018 £'000	2017 £'000
Fixed assets			
Investments	<i>10</i>	-	-
Current assets			
Debtors	<i>11</i>	21	67
Creditors: amounts falling due within one year	<i>12</i>	(3,754)	(1,004)
Net current liabilities		<u>(3,733)</u>	<u>(937)</u>
Total assets less current liabilities		<u>(3,733)</u>	<u>(937)</u>
Creditors: amounts falling due after more than one year	<i>13</i>	-	(2,530)
Net liabilities		<u>(3,733)</u>	<u>(3,467)</u>
Capital and reserves			
Called up share capital	<i>14</i>	125	125
Share premium account	<i>14</i>	230	230
Own shares held	<i>14</i>	(50)	(61)
Profit and loss account		(4,038)	(3,761)
Equity shareholders' deficit		<u>(3,733)</u>	<u>(3,467)</u>

The notes on pages 13 to 29 form part of these financial statements.

These financial statements were approved by the board of directors on 27 July 2018 and were signed on its behalf by:



J Sealy
Director

Consolidated Cash Flow Statement
for year ended 31 March 2018

	<i>Notes</i>	2018 £000	2017 £000
Cash flows from operating activities			
Loss for the year		(5,077)	(5,841)
Adjustments for:			
Depreciation, amortisation and impairment		2,271	2,421
Foreign exchange losses / (gains)		932	173
Interest payable & other charges		3,947	3,115
Taxation		473	298
(Increase) in trade and other debtors		402	(4,835)
Increase/(decrease) in trade and other creditors		(8)	4,156
Foreign Exchange Movements		(604)	-
Tax paid		(157)	(278)
Net cash from operating activities		<u>2,179</u>	<u>(791)</u>
Cash flows from investing activities			
Purchase of tangible fixed assets		(143)	(545)
Net cash from investing activities		<u>(143)</u>	<u>(545)</u>
Cash flows from financing activities			
(Purchase)/Sale of own shares		10	(5)
Proceeds from new loan		-	-
Interest paid		(795)	(661)
Repayment of borrowings		(2,650)	(5,985)
Net cash from financing activities		<u>(3,435)</u>	<u>(6,651)</u>
Net (decrease) in cash and cash equivalents		(1,399)	(7,987)
Cash and cash equivalents at 01 April		(11,302)	(3,315)
Cash and cash equivalents at 31 March	22	<u><u>(12,701)</u></u>	<u><u>(11,302)</u></u>

The notes on pages 13 to 29 form part of these financial statements.

Consolidated statement of Changes in Equity
for the year ended 31 March 2018

	Share Capital £000	Share Premium £000	Own Shares £000	Capital Contb'n £000	Profit & Loss £000	Shareholder's Equity £000
Balance at 01 April 2017	125	230	(61)	11,536	(31,504)	(19,674)
<i>Comprehensive income</i>						
Profit & loss	-	-	-	-	(5,077)	(5,077)
Other comprehensive income	-	-	-	-	467	467
Total comprehensive income	-	-	-	-	(4,610)	(4,610)
Own shares acquired	-	-	(5)	-	-	(5)
Disposal of own shares	-	-	16	-	-	16
Balance at 31 March 2018	125	230	(50)	11,536	(36,114)	(24,273)

Company statement of Changes in Equity
for the year ended 31 March 2018

	Share Capital £000	Share Premium £000	Own Shares £000	Profit & Loss £000	Shareholder's Equity £000
Balance at 01 April 2017	125	230	(61)	(3,761)	(3,467)
<i>Comprehensive income</i>					
Profit & loss	-	-	-	(277)	(277)
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	(277)	(277)
Own shares acquired	-	-	(5)	-	(5)
Disposal of own shares	-	-	16	-	16
Balance at 31 March 2018	125	230	(50)	(4,038)	(3,733)

The notes on pages 13 to 29 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.

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 the Group has net liabilities of £24.3 million at 31 March 2018 (2017: £19.7 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. Based on detailed cashflow projections prepared by the group to 31 March 2019 and less detailed projections through to 31 March 2021, including sensitivity analysis on key assumptions, the directors consider that the Company and the Group will continue to operate within the amended facilities.

The Eurobonds issued by the group (see note 13) are due to be redeemed on 31 December 2019 together with accrued interest. The directors are currently in discussions with the Eurobonds holders (the controlling shareholder of the group) and expect that the redemption date will be extended.

Notes (continued)

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 2018. 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

	2018 Turnover £'000	2017 Turnover £'000
Geographical destination:		
UK	17,348	17,447
Rest of Europe	86,956	67,990
Rest of the World	19,333	20,323
	<u>123,637</u>	<u>105,760</u>

3 Loss on ordinary activities before taxation

	2018 £'000	2017 £'000
<i>Loss on ordinary activities before taxation is stated</i>		
<i>After charging</i>		
Auditors' remuneration:		
Group:		
Audit of these financial statements	60	50
Non-audit fees	-	-
Company:		
Audit of these financial statements	-	3
Depreciation of fixed assets	430	573
Amortisation of goodwill	1,841	1,841
Operating lease rentals – plant and machinery	4	9
Operating lease rentals – other	<u>1,008</u>	<u>1,025</u>

In addition, non-recurring costs in the year were £879,000. £397,000 related to executive settlement costs. £189,000 related to executive search costs, £84,000 related to change management, £74,000 related to settlement costs for former directors, £63,000 closure of the Brazil office and £56,000 for restructuring.

Non-recurring costs in the prior year 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).

4 Remuneration of directors

	2018 £'000	2017 £'000
Directors' emoluments	706	510
Company contributions to money purchase pension schemes	14	13
Amounts paid to third parties in respect of directors' services	61	40
	<u>781</u>	<u>563</u>

The aggregate of emoluments of the highest paid director was £406,249 (2017: £240,625). Contributions to money purchase pension schemes were made for one director.

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:

	2018 No.	2017 No.
Administration	56	58
Sales	160	154
	<u>216</u>	<u>212</u>

The aggregate payroll costs of these persons were as follows:

	2018 £'000	2017 £'000
Wages and salaries	13,632	12,142
Social security costs	1,678	1,547
Other pension costs	192	186
	<u>15,502</u>	<u>13,875</u>

6 Finance income and expense

	2018 £'000	2017 £'000
Finance expenses and similar charges		
Bank interest and invoice finance costs	492	370
Bank loans	-	104
Secured loan notes	3,189	2,159
Amortisation of debt issue costs	<u>266</u>	<u>482</u>
	3,947	3,115
Loss/(gain) on foreign exchange	932	173
Net interest payable	<u>4,879</u>	<u>3,288</u>

Notes (continued)

7 Taxation

Analysis of charge in year

	2018 £'000	2017 £'000
<i>Current tax</i>		
UK tax on income for the year	280	-
Foreign Tax relief/other relief	-	-
Overseas tax	225	326
Prior year adjustment	(20)	-
Total current tax	<u>485</u>	<u>326</u>
<i>Deferred tax</i>		
Movement in deferred tax for the year	(13)	(24)
Adjustment in respect of prior years	-	(15)
Effect of tax rate change	1	11
	<u>(12)</u>	<u>(28)</u>
Tax on (loss)/ profit	<u>473</u>	<u>298</u>

The current tax charge for the period is higher than the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained below:

	2018 £'000	2017 £'000
<i>Current tax reconciliation</i>		
Loss before taxation	<u>4,604</u>	<u>5,543</u>
Current tax at 19% (2017: 20%)	(875)	(1,109)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	66	168
Goodwill amortisation not deductible for tax purposes	350	438
Other timing differences – no deferred tax recognised	201	145
Adjustment in respect of prior years	(20)	(15)
Income not taxable	(3)	-
Overseas tax	161	220
Interest disallowed under ATCA agreement with HMRC	592	400
Change in tax rate	1	11
Losses carried forward – no deferred tax recognised	-	40
Total tax charge (see above)	<u>473</u>	<u>298</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	(10,589)
Charged in year	(1,841)
At end of year	<u>(12,430)</u>
Net book value	
At 31 March 2018	<u>24,434</u>
At 31 March 2017	<u>26,275</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	875	1,120	1,995
Additions	121	23	144
Disposals	-	-	-
At end of year	<u>996</u>	<u>1,143</u>	<u>2,139</u>
Depreciation			
At beginning of year	636	279	915
Charge for year	209	221	430
Disposals	-	-	-
At end of year	<u>845</u>	<u>500</u>	<u>1,345</u>
Net book value			
At 31 March 2018	<u>151</u>	<u>643</u>	<u>794</u>
At 31 March 2017	<u>239</u>	<u>841</u>	<u>1,080</u>

Notes (continued)

10 Fixed asset investments - Company

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
Red Midco 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	Hohenzollernring 72, 50672 Cologne, Germany
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 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Trade debtors	21,169	-	22,693	-
Other debtors	772	-	394	1
Prepayments and accrued income	3,802	-	2,917	-
Deferred tax	165	-	154	-
Corporation tax	-	-	-	51
Amounts due from Subsidiary Companies	-	21	-	15
	<u>25,908</u>	<u>21</u>	<u>26,158</u>	<u>67</u>

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

12 Creditors: amounts falling due within one year

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Invoice finance	13,929	-	12,490	-
Trade creditors	10,380	-	10,451	-
Taxation and social security	650	-	480	-
Accruals and deferred income	7,816	51	7,678	28
Other creditors	428	-	34	-
Loans payable within 1 year	2,688	2,612	2,754	-
Corporation tax payable	627	-	437	-
Amounts owed to subsidiary undertaking	-	1,091	-	976
	<u>36,518</u>	<u>3,754</u>	<u>34,324</u>	<u>1,004</u>

At the year end, loans payable within 1 year relate to LTIP loan notes and Management Loan Notes.

The carrying value of outstanding LTIP Loan Notes, including accrued interest, is £0.4million, and equates to its fair value. These are due for repayment in December 2018.

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.

In the prior year loans payable within 1 year related to Red Commerce Limited, an indirect subsidiary of the company, and a short term working capital loan from the ultimate controlling party, Dunedin LLP. The loan attracted annual interest of 8% and was fully repaid in February 2018.

The invoice discounting facility is secured on the trade receivables.

Notes (continued)

13 Creditors: amounts falling due after more than one year

	Group 2018 £'000	Company 2018 £'000	Group 2017 £'000	Company 2017 £'000
Loan notes	40,119	-	40,051	2,530
	<u>40,119</u>	<u>-</u>	<u>40,051</u>	<u>2,530</u>

Analysis of debt:

	Group 2018 £	Company 2018 £	Group 2017 £	Company 2017 £
Debt can be analysed as falling due:				
In one year or less, or on demand	2,688	2,612	2,754	-
Between one and two years	40,219	-	-	-
Between two and five years	-	-	39,817	2,530
Over five years	-	-	-	-
	<u>42,907</u>	<u>2,612</u>	<u>42,571</u>	<u>2,530</u>
Unamortised loan fee	(100)	-	(234)	-
Total debt	<u>42,807</u>	<u>2,612</u>	<u>42,337</u>	<u>2,530</u>

The Company has issued Secured Eurobond loan notes. Interest charges on the loan notes were reduced to 8% from 1 April 2015. 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 2016, 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 2018 the nominal value of A and B Eurobond loan notes outstanding total £28.8million and £7.5million 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 2018, being the present value of the future liability, is £40.1million.

Notes (continued)

14 Called up share capital

	2018 £'000	2017 £'000
<i>Authorised:</i>		
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>
<i>Allotted, called up and fully paid</i>		
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.

Company has an ESOP trust which holds 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 2018 was £50,000 and this balance is held with the "Own shares held" reserve within shareholders' funds. The number of shares within the ESOP trust were 68,517 (2017: 60,449).

16 Capital Contribution

	2018 £'000	2017 £'000
Capital contribution reserve	<u>11,536</u>	<u>11,536</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 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
<i>Operating leases which expire:</i>				
Less than one year	960	1,127	-	-
Between one and five years	3,134	3,653	-	-
More than five years	1,543	-	-	-
	<u>5,637</u>	<u>4,780</u>	<u>-</u>	<u>-</u>

During the year £1,012k, was recognised as an expense in the profit and loss account in respect of operating leases (2017: £1,040k)

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 £192,000 (2017: £186,000).

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 LLP, being the manager 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 £61,000 (2017: £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 (2017: £nil).

Transactions with key management personnel

Total compensation of key management personnel in the year amounted to £839,000 (2017: £550,000).

Management loan notes and accrued interest outstanding at the year-end amounted to £2,612,361 (2017: £2,530,198)

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 2018 amounts owed totalled £13.9m (2017: £12.5m).

The company has guaranteed loan notes issued by Red Midco Limited. At 31 March 2018 amounts owed under the loan notes totalled £42.1m (2017: £42.1m).

22 Cash and cash equivalents/ bank overdrafts

	2018 £'000	2017 £'000
Cash at bank and in hand	1,228	1,188
Bank overdrafts	(13,929)	(12,490)
	<u>(12,701)</u>	<u>(11,302)</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.