Company Registration No. 01587537

# Zellis UK Limited

## Annual Report and Financial Statements

## For the year to 30 April 2020

# ZELLIS UK LIMITED
# COMPANY INFORMATION

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|---|---|
| **Directors** | John Petter |
| | Alan Kinch |
| **Secretary** | Elizabeth Leppard |
| **Company number** | 01587537 |
| **Registered office** | Peoplebuilding 2<br>Peoplebuilding Estate<br>Maylands Avenue<br>Hemel Hempstead<br>HP2 4NW |
| **Auditor** | Ernst & Young LLP<br>1 More London Place<br>London<br>SE1 2AF |

# ZELLIS UK LIMITED
# COMPANY INFORMATION

## Contents

# ZELLIS UK LIMITED
# STRATEGIC REPORT
# FOR THE YEAR ENDED 30 APRIL 2020

The directors present the strategic report and financial statements for the year ended 30 April 2020.

**Principal activity**

Zellis UK Limited is a member of the Zellis Group ('group').

Throughout the year the principal activities of the company were the provision of outsourced payroll and HR services, the development and supply of IT solutions & software, and the provision of related consultancy and support services for Human Resources departments.

**Business review**

The Company was acquired by Zellis Holdings Limited, from the Group headed by Northgate Information Solutions Limited on 31st January 2018.

The majority of the UK business focuses on serving the UK midmarket sector and large local enterprise.

Turnover for the year ended 30 April 2020 was £98.3m (2019: £100.6m). The overall reduction was driven by legacy declines and Managed Services, partially compensated by growth in ResourceLink and software services. Operating profit excluding significant separately disclosed items, amortisation of intangibles and depreciation was £33.5m (2019: £30.6m), and the Profit before tax for the financial year was £4.3m (2019: profit £113k).

Net liabilities have reduced in the year (2020: £45.0m; 2019: £57.8m). Non-current assets of £141m (2019: £147.9m) include goodwill, Intellectual Property ('IP') value of developed software, IFRS15 contract assets and IFRS16 right-of-use assets recognised in the year. Current liabilities of £139.8m (2019: £141.1m) include a £90.0m (2019: £87.2m) balance payable to other companies in the group. The valuation of the defined benefit pension scheme is a net liability of £42.9m (2019: £52.9m).

Zellis has over 40+ years' experience of serving UK & Ireland organisations in the public and private sectors and currently has over 1,000 customers. These include 33 out of the FTSE 100 companies and equates to 5 million employees served and 60 million payslips per year.

Zellis is the market leader in the UK, helping organisations to align their people and talent strategy to their business strategy, as the trusted partner of HR decision makers when it comes to improving HR service delivery, through smarter processes and more efficient technology. Zellis has focussed on delivering additional value to existing customers through new services and modules. This strategic evolution allows Zellis to focus on its core strengths in the UK and Ireland, combining new solutions and enhancements with an impressive heritage and dominant market share.

Zellis's IP remains a key differentiator, as well as the foundation for our HR and Payroll service offerings. In October 2020, Zellis picked up the Software product of the year award for the ResourceLink product by the Chartered Institute of Payroll Professionals ('CIPP') UK for the third year running. This was an endorsement of Zellis UK strategy, not just in software and service development but in the overall customer experience. As well as having the strongest payroll offering in the UK and Ireland, Resource Link covers the entire employee lifecycle integrating Payroll with Talent, HR, Reporting and Analytics and more with a superior user experience.

**Business Model and Strategy**

Zellis operates a market segment-focused approach through which we go to market following two strategic segments: small & medium-sized business and mid-market. These segments play an increasingly important role in our growth strategy and in our overall go-to-market approach. Zellis UK Limited is primarily focused on the mid-market in the UK including large local enterprises.

Customer satisfaction has continued to be a focus area in FY20. For the year ahead we want to build on the foundation which was laid in the last three years with a single objective: growth. Customer satisfaction, delivery quality, and innovation will continue to drive our investment focus and our value proposition to the markets in which we operate.

**Principal risks and uncertainties**

The Board has overall responsibility for the company's approach to assessing risk and recognises that creating value is the reward for taking and accepting risk. Executive management implements the Board's policies on risk and control and provides assurance on compliance with these policies. This system is designed to manage, rather than eliminate, the risk of failure to achieve corporate objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss.

All employees are accountable for operating within these policies.

***Covid-19 pandemic***

The regional outbreak of Coronavirus (COVID-19) in China in January 2020 quickly evolved into a global pandemic which has unique characteristics compared to anything we have seen in our lifetimes. This has resulted in significant impacts on social and economic factors around the world with long lasting adverse impacts ahead. The company operates across the UK which saw lockdowns. There have been resulting changes in business and consumer behaviour which has impacted many businesses. However, given the nature of Zellis's business we are relatively well positioned to address these challenges. Zellis provides business critical services to our customers and the nature of the revenues is such that a high proportion of revenues are recurring and committed (with circa 80% of revenues being recurring). As keyworkers we were required to continue operations during the pandemic to ensure that the businesses we support could continue to operate.

**Our response to the pandemic**

Following the outbreak of COVID-19, we acted quickly to support our customers, to ensure the safety of our people and to mitigate the potential adverse impacts on our business. As the outbreak developed into a global pandemic, we realised the need for quick decision making and created a COVID-19 taskforce responsible for decision making and business continuity planning, led by our CEO, John Petter. This Taskforce met daily throughout the pandemic and enabled decisions to be made quickly and ensured timely actions were implemented.

*Safeguarding our People*

Safeguarding our people has been a major priority through the pandemic to ensure a safe working environment for all Zellis colleagues. We quickly took steps to enable colleagues to work from home wherever possible including the provision of additional devices, increased software security and the provision of 4G dongles where secure fixed line connections could not be achieved. By working quickly, we put all the necessary steps in place to ensure 100% of our colleagues could work from home.

**Principal risks and uncertainties (continued)**

In addition to enabling remote working, measures taken have included increased spacing between workstations, provision of appropriate protective equipment, staggered shifts and breaks, enhanced cleaning processes and contingency planning.

*Supporting our Customers*

Through the actions taken, we continue to provide services to customers through the pandemic with no interruptions. This enabled the employees of our customers to continue to get paid throughout the period.

Many of our customers have been impacted during the pandemic. Governments have taken unprecedented steps to protect public health, the economy and jobs. This has led to a rapid evolution of legislation in the UK and Ireland. Zellis colleagues have been working around the clock to ensure we could support our customers through these changes with software updates including:

- Multiple changes and clarifications to the Job Retention Scheme;
- Changes to Statutory Sick Pay and Social Welfare Payments.

We have witnessed a significant improvement in our NPS score over the Covid-19 pandemic. We know that NPS scores are often linked to situational context and that providing excellent responses to customer issues in their time of need often drives improvement in the NPS score. Alongside our product and customer improvement program, we have consistently and proactively engaged with customers throughout the Covid-19 pandemic ensuring that they not only had the right information to deal with the significant and varied adjustments to legislation but also incorporated specific functionality, for example the Job Retention Scheme, into our software to support customers through this difficult time.

We have also provided webinars and released regular communications to help our customers keep abreast of the evolving situation throughout the pandemic. In addition, amongst a number of services we provided to customers facing business continuity challenges, we provided extra support to those most affected to ensure they can continue to pay their employees.

*Managing the business risks created by Covid-19*

The Covid-19 pandemic has impacted most businesses in some way. It clearly brings new and heightened risks to many businesses. We have been working hard to mitigate the risks created by the outbreak. The risks which are actively being managed include:

- Impact on Sales. With customers focused on business continuity some sales discussions were delayed. The impact on sales has not been material on the company with overall order book sales broadly in line with the prior period for both Q4 FY20 and Q1 FY21.

- Implementation work for past sales being delayed resulting in lower revenue (as recognised from go live). We have the capability to fully deploy solutions remotely so wherever possible this has been done.

- Customers go into bankruptcy / administration / delay payments. As a result of Covid-19 we have new heightened credit control procedures. We have seen a delay in some customers paying outstanding invoices in business segments which have been most severely impacted by Covid-19. In addition, we have seen some customers go into administration. The expected losses from this have been provided in the accounts. Although it is difficult to accurately estimate the actual impact due to the considerable uncertainties, our new credit control processes have been more successful than expected.

**Principal risks and uncertainties (Continued)**

- General economic factors. The economy has been impacted as a result of the pandemic and the full effects are yet to be seen. Lower rates of employment and uncertainty could reduce spending on Enterprise grade software services, including payroll and HR records as well as Benefits and Recognition. We therefore acted quickly to reduce costs, optimise cash flow, protect liquidity and, where necessary, change how we operate. We applied a significant reduction in all discretionary overheads. We also have focused on ensuring working capital is managed effectively, while maintaining productive relationships with customers and suppliers.
- We limited capital investments to essential projects and R&D only. The Executive Team also agreed to reductions in salaries ranging from 20-30% for a 2-month period, from 1 April 2020. Across the Zellis business, activities have significantly increased during the pandemic. However, there have been some areas of the business in which activities have significantly reduced or stopped. Therefore, a small percentage of our workforce have been furloughed, with the support from the UK Government's Coronavirus Job Retention Scheme. In addition, we have utilised the UK government's fiscal support measures on VAT and deferred the quarterly payments due in May 2020 to March 2021. We are conscious that significant uncertainties remain with the potential of a second wave out-break combined with further macro-economic impacts and pressure on our customer base that are more susceptible (e.g. hospitality, travel and retail businesses). Therefore, we are committed to maintain the prudent approach on suppressing discretionary costs and focus on cashflow.

Trading in Q1, from 1 May 2020 to 31 July 2020, has reflected the resilience of our business model and the critical nature of the products and services offered. During this period the company has delivered revenue growth of 3.4% and operating profit growth of 3.2% despite the challenge from the pandemic. This performance is in line with the reset plan for the year.

Cash & liquidity was £6.8m at the end of the financial year, £3.8m higher than the prior year.

***Impact of Brexit***

The UK membership of European Union was terminated on 31 January 2020, followed by a period of transition arrangements due to end on 31 December 2020. There is uncertainty associated with the trade relationship between the UK and the rest of the world and at the approval date, the lack of clarity remains and was exacerbated by the Covid-19 pandemic. We have considered, as part of our broad risk management, the potential impact of Brexit on our ability to service our clients when the transition ends at the end of 2020. The company's contracts, cashflows and finances are denominated predominantly in sterling thus the exposure to foreign exchange rate shifts is limited. Our services are mainly oriented around people and technology and the company's suppliers are predominantly based in the UK, therefore the impact on supply chain is also considered minimal. There is some indirect exposure to downshifts in the UK employment levels given we are a payroll and HR service provider and our software is used by organisations to pay UK based employees.

The company's main risk relating to Brexit is surrounding its customer base, more specifically the ability of customers to continue to trade and settle their liabilities as and when due. The company does not currently foresee any material adverse impact on day-to-day operations due to the domestic nature of our UK business and customer needs. Additionally, we have low numbers of UK and EU colleagues based outside their home countries. Where this is the case, the risk has been mitigated due to protections put in place by the UK and certain EU governments to enable such citizens to continue to reside and work outside their home countries. The management team is continuing to monitor the Brexit developments and will continue to look at ways to mitigate any risks as they arise.

**Section 172(1) Statement**

Section 172(1) of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, section 172(1) requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

In discharging its section 172(1) duties the Company has regard to the factors set out above. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders and the board frequently has to make difficult decisions based on competing priorities. By considering the company's purpose, values, strategic priorities we aim to balance those different perspectives.

The company delegates authority for day-to-day management of the Company to executives and then engage management in setting, approving and overseeing the execution of the business strategy and related policies. The company reviews risk and compliance, legal, pensions and health and safety matters at every Board meeting. The Company also reviews other areas over the course of the financial year including the Company's financial and operational performance; stakeholder-related matters; diversity and inclusivity; and corporate responsibility matters. This is done through the consideration and discussion of reports which are sent in advance of each board meeting and through presentations to the Board.

The impacts of the Company's activities on the Company's stakeholders (including its workforce, customers and suppliers) are an important consideration when making relevant decisions. In general, stakeholder engagements take place at the operational and group level which is considered an efficient and effective approach.

The Company receives information regularly to help it understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including reports and presentations on our financial and operational performance, non-financial KPIs, risk, environmental, social and corporate governance matters and the outcomes of specific pieces of engagement. As a result of this the Company has had an overview of engagement with stakeholders and other relevant factors which allows it to understand the nature of the stakeholders' concerns and to comply with our section 172 duty to promote success of the company.

**Suppliers**

Our suppliers range from those who provide contractor services, IT infrastructure, professional services, property and telecommunications.

**Section 172(1) Statement (Continued)**

*How we engage*

A preferred supplier list is in place to ensure Zellis have a compliant, ethical and cost-effective supply base to meet business requirements. All preferred suppliers have a business owner allocated to them and are engaged in accordance with the Zellis supplier management standards including regular operational meetings, monthly / quarterly reviews and periodic executive reviews where appropriate.

New suppliers are engaged where a preferred supplier cannot meet the business requirements appropriately. Any new supplier will be engaged through the appropriate procurement process including RFI, RFP or competitive tender.

*What matters to them*

Our supply base contains a wide range of companies with varying priorities. The effective application of our supplier management approach ensures that we understand the specific priorities of each supplier and work collaboratively to collectively achieve these. We also endeavour to ensure that payments to our suppliers are made in line with agreed terms and conditions.

*What we are doing*

We have introduced a supplier assurance approach that ensures our supply base continues to adhere to the highest security, compliance and ethical standards throughout the relationship with the group.

We are also continuing to work collaboratively with suppliers to improve standards and access innovations in the fast-changing supply markets.

**<u>Customers</u>**

Our customers are primarily mid-market (500+ employees) to whom we provide HR and payroll related technology and outsourced services.

*How we engage*

Each customer has a relationship manager allocated to discuss new opportunities on their accounts and give access to our support services team to raise incidents and request advice. For larger customers with more complex services provided, we hold regular meetings and provide them with timely reports and KPIs on our services and control environments.

*What matters to them*

Our technology customers need a stable and easy to use system with rich functionality that provides them with accurate and timely legislative information for them to run payroll.

Our managed services customers expect us to accurately produce the payroll on time in a well-controlled way in line with GDPR requirements.

Our ResourceLink consultancy customers look to us for the provision of seamless implementation as well as IT & process recommendations.

Our background checks customers expect us to provide them with tailored services to cater for their specific needs and enable them to hire with confidence.

*What are we doing*

We focus on technology and innovation to improve our product offering by regularly reviewing product roadmaps to ensure we are prioritising the right updates that are aligned with our customers' needs. For example, we are using Microsoft Azure platform to build a Human Capital Management (HCM) Cloud solution for our core HR customers.

**Section 172(1) Statement (Continued)**

Updates on legislation and user interface are also provided to our customers on a timely basis. For example, a recent module update addressed the requirements of furloughing staff due to Covid-19.

Our security environment is under regular review because data protection is one of our top priorities as a payroll provider.

**Employees**

*How we engage*

At Zellis we work hard to create a culture where people want to join, belong to and be part of a progressive organisation.

We have a comprehensive and inclusive communications and engagement strategy that includes a global all-colleague intranet, daily news articles, fortnightly all-hands calls, frequent CEO blogs, interactive internal social media channels, regular engagement surveys, and a peer-to-peer recognition platform.

*What matters to them*

Our employees expect us to provide a safe and healthy working environment that provides job security, recognition of achievements, opportunities for personal development and progression, underpinned by a culture where all colleagues feel they can participate and play an active part.

We believe that if we focus on the colleague experience, underpinned by a diverse and inclusive culture, then we'll be better placed to serve the needs of our customers.

*What are we doing*

At Zellis we want every colleague to thrive and feel fulfilled at work. We encourage all colleagues to learn and grow through various learning and development channels (including the internal Learning Portal) and support career growth through internal career paths.

All colleagues are able to stand for, elect, and be represented by members of our employee representative forum, who regularly engage with our Executive Team to ensure colleagues are able to shape and have a say in business change.

We are committed to recruiting and retaining a diverse and inclusive workforce that is representative of the customers we serve and the communities we operate in. We ensure hiring managers are educated on our diversity and inclusion principles and give them practical tools and data to support their hiring decisions and mentoring programmes to support the development and progression of all colleagues - regardless of background - in Zellis.

We offer a reward and recognition framework that brings to life our own purpose 'To make people feel appreciated for the work they do', by ensuring:

- Our minimum pay rates are in line with the Real Living Wage;
- We offer private medical cover to all colleagues, funded by Zellis;
- Our flexible benefits offering gives colleagues choice to select the right benefits for them, whether for peace for mind, such as insurance for them and their family, or to enable lifestyle choices, such as cycle to work and travel benefits;
- Our recognition platform MyAppreciation creates an in-the-moment social way for colleagues to recognise their peers anytime, anywhere against our values

As a result, our employee NPS score has been improving rapidly.

**Section 172(1) Statement (Continued)**

**Shareholders**

Our shareholders are primarily Bain Capital with some shares held by company executives. Bain Capital are a global private equity firm, founded in 1981, with over $100 billion in assets under management.

*How we engage*

We engage regularly with our major shareholder, Bain Capital, both on a formal and an informal basis. Formal Board meetings, at which Bain Capital are represented, are held monthly. In addition, Audit Committees and Remuneration Committees are held at least twice a year.

Bain Capital members also provide support and guidance to company executives on a wide variety of matters including attendance at Steering Committee meetings for initiatives which are key to delivering the company strategy.

*What matters to them*

That the business executes on its strategic plan, improves the underlying business and delivers sustainable returns.

*What are we doing*

Regular interaction and communication with the Board ensures that the goals of the business and Bain Capital are aligned.

**Pension trustees**

*How we engage*

The company is represented at regular pension trustee meetings by an Executive member. In this meeting the company shares information on strategy, financial position and performance as well as any other important information. During the meetings the company openly engages with the trustees and their advisors on investment and risk management strategies undertaken by the fund.

*What matters to them*

Pension trustees operate on behalf of the members of the pension scheme and therefore act in the best interest of the scheme beneficiaries. That means working with their advisors and the company to ensure that investments are made by the scheme balancing both the investment return and risk management. The trustees also ensure the business makes appropriate contributions into the scheme to fund the pension deficit over time whilst ensuring the business remains a strong financial covenant.

*What are we doing*

The board are committed to openly engaging with the pension trustees and their advisors to ensure collectively the best interests of all the stakeholders are maintained.

**Community and environment**

We continue to enhance employability in our communities through Apprenticeships (47 apprentices in the UK), Career Visits, Work Experience and partnership with companies. By the doing this, we are addressing shortages of skilled staff, gender pay gap issues (published annually available on HMRC website) and supply chain issues, creating a skilled future workforce which will benefit IT sector growth.

Our code of conduct has also laid out guidance on how we conduct our business to respect the communities and protect the environment. For example, we have promoted paperless payslips to reduce paper wastage and carbon impact from associated distributions, and we updated our IT equipment to be more environmentally friendly.

## Principal Decisions

Following the acquisition of Zellis (formerly NGA UK & Ireland) from NGA HR, the business has been undergoing a significant transformation.

The first stage of this was to carve the business out from the former parent and set the business up as a separate Group of legal entities with the necessary people, processes and systems. This was largely completed during the year ended April 2020.

The next stage of the journey is to invest in transformation programmes which drive a return on investment. These include:

- Enhancing the Product range – through developing a range of payroll and HR software modules built in the Cloud with enhanced capabilities including analytics and which are significantly easier to implement and plug in to.
- Managed Services transformation – developing digital workflows to improve speed and accuracy and to deliver significant automation.
- Cost rationalisation – targeted set of programmes to reduce costs across the business (including third party costs), improve organisational efficiencies and complete property rationalisation.

These projects are designed with the long-term sustainable success of the business in mind and are in line with our strategic vision of the company.

The board is in the view that by implementing these initiatives, the interests of all stakeholders are considered appropriately and are in balance.

This report was approved by the board of directors on 3 December 2020 and signed on its behalf by:

A.R

Alan Kinch

Director

# ZELLIS UK LIMITED
# DIRECTORS' REPORT
# FOR THE YEAR ENDED 30 APRIL 2020

The directors present their annual report and financial statements for the year ended 30 April 2020.

In accordance with s414(C) (11) of the Companies Act, included in the Strategic Report is information relating to future developments which would otherwise be required by Schedule 7 of the 'Large and Medium Sized Companies and Groups (Accounts and Reports) Regulation 2008' to be contained in a Directors' Report.

**Employees**

Details of employee engagement have been included in the s172 section in the Strategic report.

**Financial risk management objectives and policies**

The company's financial assets and liabilities mainly comprise cash, trade payables and receivables and other payables and receivables arising directly from operations.

The main operational risks are:

***Economic and market risk***

The economic environment can affect the performance of the company's businesses in terms of both sales and costs. Through development of our products and services the company works to ensure that we deliver value to all our customers. The company works hard to mitigate the impact of external cost pressures on our customers and the company's overall profitability through the delivery of cost savings.

***Credit risk***

The directors review and agree policies for managing credit risk, which is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the company's trade and other receivables from customers. Management has a credit policy in place and the exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The company does not require collateral in respect of financial assets.

At the reporting date there were no significant concentrations of credit risk.

***Cyber security risk***

Zellis has a highly skilled and dedicated team that closely manage the cyber security risk. A risk-based approach is adopted whereby all threats are analysed and monitored continuously such that mitigating controls are in place. Zellis has attained ISO 27001 (Information Security Management) accreditation status and follows NIST (National Institute for Standards and Technology) methodologies to ensure thorough and timely proactive response to threats and incidents.

***Liquidity risk***

The company has increased profit with an improved cash position compared to prior year. It is being funded by its ultimate parent company and participates in the group's syndicated Senior facility. The company has received written assurance from its parent company for financial and other support within 12 months of the financial statement date.

**Dividends**

The Board reviews the dividend policy in conjunction with a policy of retaining significant funds for future growth. No dividends were declared during the year under review (2019: nil).

**Research and developments**

The company is committed to its principal products and will continue to invest in its product roadmap. The product strategy has been developed to provide our customers with a compliant, insightful and engaging experience through its flagship HR and payroll platforms.

In 2020 the company has released enhancements that meet required legislative changes in the UK and Ireland, as well as enhancements that drive further efficiencies and engagement for employees, managers, HR administrators and senior decision makers.

**Directors**

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Alan Kinch

John Petter

**Director's indemnities**

The company has made qualifying third-party indemnity provisions for the benefit of its Directors during the year; these remain in force at the date of this report.

**Going concern**

The Directors have a reasonable expectation that the company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements as detailed in note 2 on page 23 of the financial statements.

**Donations**

The company made no political donations and incurred no political expenditure during the year.

**Pensions**

The company participates in a defined contribution scheme, the assets of which are held separately from those of the company in independently administered funds.

The company also operates two defined benefit schemes, the Northgate HR Pension Scheme and the Rebus Group Pension Scheme, both of which are closed to new entrants. The trustee of the schemes is the corporate trustee, Northgate Pension Trustees Limited.

Actuarial valuations of the schemes are carried out triennially. The last valuation was as at 15 June 2019. The value of the deficit has been updated as at 30 April 2020, for the purposes of IAS 19, by an independent qualified actuary and amounts to £42.9m (2019: £52.9m). Extra contributions have been made and will continue to be made to the schemes by the company to reduce the deficit.

The company has established a joint working group with the Investment Sub-Committee of the Trustee to carry out a detailed review of investment strategy in light of current market conditions. The outcome of this review has led to the adoption of a liability driven investment strategy aimed at protecting returns over the long term whilst mitigating the effects of short-term volatility. The company is committed to working with the Trustee to keep the investment strategy under regular review and to explore ways of managing the pension assets and liabilities efficiently in the current economic climate.

**Auditor**

Each of the persons who are a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

The auditor, Ernst and Young LLP, has indicated their willingness to continue in office as auditor. The reappointment of the auditor will be approved by the Annual General Meeting.

**Green House Gas ('GHG') emissions and energy use data for period 1 May 2019 to 30 April 2020**

The disclosure is presented in Zellis Topco Limited financial statements for the year ended 30 Apr 2020.

On behalf of the board

A. R. L

Alan Kinch

Director

3 December 2020

# ZELLIS UK LIMITED
# DIRECTORS' RESPONSIBILITIES STATEMENT
# FOR THE YEAR ENDED 30 APRIL 2020

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 101 Reduced Disclosure Framework.

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 company and of their profit or loss for that year. 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, relevant, reliable 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 its 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.

By order of the Board of Directors and signed on behalf of the Board:

Alan Kinch

Director

3 December 2020

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ZELLIS UK LIMITED FOR THE YEAR ENDED 30 APRIL 2020

**Opinion**

We have audited the financial statements of Zellis UK Limited for the year ended 30 April 2020 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the financial statements is applicable law United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 April 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of Matter – Effects of COVID-19**

We draw attention to Notes 2 and 12 to the financial statements which describe the impact of Covid-19 on the business and the uncertainties over future customer demand which impact the key assumptions used in the goodwill and intangible asset impairment test. Our opinion is not modified in respect of this matter.

**Conclusions relating to going concern**

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

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

**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**

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

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

**Matters on which we are required to report by exception**

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

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

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

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**

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

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ZELLIS UK LIMITED FOR THE YEAR ENDED 30 APRIL 2020 (CONTINUED)

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

**Use of our report**

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.

Ernst & Young LLP

Christine Chua (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

3 December 2020

# ZELLIS UK LIMITED
# INCOME STATEMENT
# FOR THE YEAR ENDED 30 APRIL 2020

| | Note | 2020 | 2019 (Restated) |
|---|---|---|---|
| | | £'000 | £'000 |
| Revenue | 4 | 98,388 | 100,612 |
| Operating costs | 5 | (91,316) | (100,261) |
| **Operating profit** | | **7,072** | **351** |
| **Operating profit before separately disclosed items, amortisation of intangibles and depreciation of tangible fixed assets** | | 33,516 | 30,618 |
| Amortisation of acquired intangibles | | (9,632) | (8,929) |
| Depreciation of tangible assets | | (870) | (737) |
| Depreciation of leased assets | | (4,685) | (4,474) |
| Significant separately disclosed items | 5 | (11,257) | (16,127) |
| **Operating profit** | | **7,072** | **351** |
| Interest receivable from group undertakings | 9 | 1,147 | 3,349 |
| Other investment income | 9 | 1 | 2 |
| Finance costs | 10 | (3,910) | (3,589) |
| **Profit before tax** | | **4,310** | **113** |
| Tax | 11 | 2,628 | (2,428) |
| **Profit/(loss) for the year** | | **6,938** | **(2,315)** |

The notes on page 22 to 54 are an integral part of these financial statements. All operations relating to continuing operations.

The Income Statement for the year ended April 2019 has been restated to correct a prior period error. The effect of the restatement is summarized in the note 3.

# ZELLIS UK LIMITED
# STATEMENT OF COMPREHENSIVE INCOME
# FOR THE YEAR ENDED 30 APRIL 2020

| | 2020<br>£'000 | 2019<br>(Restated)<br>£'000 |
|---|---|---|
| **Profit/(loss) for the year** | 6,938 | (2,315) |
| **Other comprehensive income:** | | |
| **Items that will not be reclassified subsequently to profit or loss** | | |
| Actuarial gain/(loss) on defined benefit pension scheme | 6,635 | (11,330) |
| Deferred tax arising on the actuarial gain/loss recognised in the pension schemes | (775) | 1,926 |
| **Total items that will not be reclassified to profit or loss** | **5,860** | **(9,404)** |
| **Total comprehensive income/(loss) for the year** | **12,798** | **(11,719)** |

The notes on pages 22 to 54 form an integral part of these financial statements.

The Statement of Comprehensive Income for the year ended April 2019 has been restated to correct a prior period error. The effect of the restatement is summarized in the note 3.

# ZELLIS UK LIMITED
# STATEMENT OF FINANCIAL POSITION
# AS AT 30 APRIL 2020

| | Note | 2020 £'000 | 2019 (Restated) £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 12 | 73,356 | 73,356 |
| Other intangible assets | 12 | 6,759 | 10,713 |
| Property, plant and equipment | 13 | 2,537 | 2,926 |
| Right of use assets | 15 | 8,650 | 12,059 |
| Contract assets | 4 | 12,645 | 13,636 |
| Investments | 17 | 15,501 | 15,501 |
| Deferred tax asset | 20 | 21,583 | 19,730 |
| | | **141,031** | **147,921** |
| **Current assets** | | | |
| Trade and other receivables | 16 | 25,922 | 28,560 |
| Contract assets | 4 | 7,467 | 5,929 |
| Cash and cash equivalents | | 6,778 | 2,984 |
| | | 40,167 | 37,473 |
| **Total assets** | | **181,198** | **185,394** |
| **Current liabilities** | | | |
| Trade and other payables | 18 | 106,232 | 107,454 |
| Lease liabilities | 15 | 3,254 | 4,246 |
| Contract liabilities | 19 | 29,735 | 27,937 |
| Provisions | 21 | 596 | 1,472 |
| | | **139,817** | **141,109** |
| **Non-current liabilities** | | | |
| Lease liabilities | 15 | 6,352 | 9,105 |
| Contract liabilities | 19 | 35,941 | 40,129 |
| Provisions | 21 | 1,234 | - |
| Retirement benefit obligations | 22 | 42,895 | 52,890 |
| | | 86,422 | 102,124 |
| **Total liabilities** | | **226,239** | **243,233** |
| **Net liabilities** | | **(45,041)** | **(57,839)** |

# ZELLIS UK LIMITED
# STATEMENT OF FINANCIAL POSITION (CONTINUED)
# AS AT 30 APRIL 2020

| | Note | 2020 | 2019 (Restated) |
|---|---|---|---|
| | | £'000 | £'000 |
| **Equity** | | | |
| Called up share capital | 23 | 20,010 | 20,010 |
| Capital contribution | | 3,361 | 3,361 |
| Accumulated loss | | (68,412) | (81,210) |
| **Total equity** | | **(45,041)** | **(57,839)** |

The notes on pages 22 to 54 form an integral part of these financial statements.

The Statement of Financial Position for the year ended April 2019 has been restated to correct a prior period error. The effect of the restatement is summarized in the note 3.

The financial statements were approved by the board of directors and authorised for issue on and are signed on its behalf by:

A. R

Alan Kinch

Director

3 December 2020

# ZELLIS UK LIMITED
# STATEMENT OF CHANGES IN EQUITY
# FOR THE YEAR ENDED 30 APRIL 2020

| | Share capital £'000 | Capital contribution £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|
| **As at 1 May 2018** | **20,010** | **3,361** | **(37,504)** | **(14,133)** |
| Change in accounting policy | - | - | (31,987) | (31,987) |
| Profit for the year (Restated) | - | - | (2,315) | (2,315) |
| Actuarial (loss) on defined benefit pension schemes | - | - | (11,330) | (11,330) |
| Deferred tax credit arising on the pension actuarial loss | - | - | 1,926 | 1,926 |
| **At 30 April 2019 (restated)** | **20,010** | **3,361** | **(81,210)** | **(57,839)** |
| Profit for the year | - | - | 6,938 | 6,938 |
| Actuarial gain on defined benefit pension schemes | - | - | 6,635 | 6,635 |
| Deferred tax charge arising on the pension actuarial gain | - | - | (775) | (775) |
| **At 30 April 2020** | **20,010** | **3,361** | **(68,412)** | **(45,041)** |

The notes on pages 22 to 54 form an integral part of these financial statements.

The Statement of Changes in equity for the year ended April 2019 has been restated to correct a prior period error. The effect of the restatement is summarized in the note 3.

**1. General information**

Zellis UK Limited is a private company limited by shares incorporated and domiciled in England and Wales. The registered office is Peoplebuilding 2, Peoplebuilding Estate, Marylands Avenue, Hemel Hempstead, HP2 4NW. The company was formerly known as NorthgateArinso UK Limited and changed its name to Zellis UK Limited on 21 January 2019.

**2. Accounting policies**

**Basis of accounting**

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to:

- the requirements of IAS 7 Statement of Cash Flows;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements in IAS 24 Related Party Disclosures to disclose key management personnel compensation and related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting policies, Changes in Accounting Estimates and Errors to disclose a new IFRS that has been issued but not yet effective; and
- the requirements of paragraph 17 and 18A to disclose key management personnel compensation.
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

As the consolidated accounts of Zellis Holdings Limited include the equivalent disclosures, the company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share Based Payments in respect of group settled share-based payments
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated; and
- disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures as a non-financial institution.

The company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated accounts. The financial statements present information about the company as an individual entity and not about its group.

**2. Accounting policies (continued)**

As at 30 April 2020, Zellis UK Limited was a wholly owned subsidiary of Zellis Holdings Limited formerly Colour Bidco Limited) and the results of Zellis UK Limited are included in the consolidated financial statements of Zellis Holdings Limited which are available from its registered office: Peoplebuilding 2, Maylands Avenue, Hemel Hempstead, HP2 4NW.

**Going concern**

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic review on page 1-10. In addition, note 23 to the financial statements includes the wider Group's long-term debt position. Notwithstanding the net current liabilities of £99.7m (2019 restated: £103.6m) and net liabilities of £45.0m (2019 restated: £57.8m), the Company's financial statements are prepared on a going concern basis for the following reasons:

The Company has made a profit for the year of £6.9m (2019 restated: loss £2.3m) and generated Operating profit (before significant restructuring, one-off items, property provisions, amortisation of intangibles and depreciation of tangible fixed assets) of £33.5m (2019: £30.6m). Significant separately disclosed items include restructuring costs and separation spend of which will not be ongoing in the longer term.

The Directors have considered the projected cash flow of the Company for a period of twelve-month from the date of approval of these financial statements. Given that the cash generated by the Company will be used to service external loans of the group (held in other group companies), cash available to the company to meet its obligations is impacted by the liabilities of the wider group. Accordingly, the directors manage the cash flow of the company together with the cash flow of the wider group headed by Zellis Holdings Limited and have prepared forecasts for the twelve-month period from the date of approval of these financial statements for the group headed by Zellis Holdings Limited, which indicate the group should be able to operate within its current revolving facility.

Going concern of the company is thus dependent on availability of short-term funding from the group, if needed, and also upon the group companies not seeking repayment of the amounts currently due to the group companies, which at 30 April 2020 amounted to £90.0m (2019: £87.2m). The Company has received written assurance from Zellis Holdings Limited for financial assistance to the company as it is necessary for it to continue as a going concern and to settle its liabilities as and when due for the period of at least twelve months from the date of approval of these financial statements.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for a period of at least twelve months from the date of signing of these financial statements. Therefore, these accounts have been prepared on a going concern basis.

**2. Accounting policies (continued)**

**Non-GAAP performance measures**

The board have presented 'Operating profit before significant separately disclosed items, amortisation of intangibles and depreciation of tangible fixed assets' as an adjusted profit measure. They believe that this measure provides additional useful information for the shareholders on the underlying performance of the business. These measures are consistent with how business performance is monitored internally. The adjusted operating profit is not a recognised profit measure under adopted IFRS and may not be directly comparable with 'adjusted' profit measures used by other companies. The adjustments made to operating losses have the effect of excluding significant separately disclosed items. These are predominantly transformational in nature outside normal business as usual ('BAU') activities and distort the understanding of the underlying performance for the year and comparability between periods.

**Revenue**

The recognition of the company's revenue was in line with the group's policy on revenue recognition, which is as follows:

The company generates revenue from the following types of services:

- Payroll and HR setup and services;
- Consulting services;
- Sale of licenses;
- Background checking

Payments and receivables related to implementation prior to go live of HR and administration services are deferred to the Statement of financial position along with associated cost until go live, as the implementation service does not deliver a performance obligation to the customer. Implementation is not a performance obligation, nor are any operations cost incurred prior to go live. The release of deferred implementation revenue and costs will be recognised on a straight-line basis over the life of the contract. The adjusted monthly revenue from the provision of services will be recognised each month that we provide the service for a performance obligation.

The company also enters into contracts with customers for installation, customisation, maintenance or other technical services or consultancy on third party software. Each promise under these contracts is a separate performance obligation and revenue is recognised for such contracts on time and material basis or percentage of completion method. Timing of payments tends to be similar to timing of revenue.

The sale of a read only licence is recognised at contract date, as the performance obligation is met on 'delivery' of the licence.

The company recognises revenue based on 5 basic principles described in IFRS15:

- Identify the contract with a customer;
- Identify all the individual performance obligations within the contract;
- Determine the transaction price;
- Allocate the price to the performance obligations;
- Recognise revenue as the performance obligations are fulfilled.

If a customer pays, or the company has an unconditional right to receive consideration before the performance obligation is completed, then the revenue is not recognised, and contract liability is recognised.

If the company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the revenue is recognised, and accrued income recorded.

**2. Accounting policies (continued)**

There may be separate performance obligations within a single customer contract. Where the obligations are defined, these will be dealt with as a separate go live instance, and the transaction price will be apportioned appropriately. Where the separate obligations are not defined, then unless deemed to be material the contract will be treated as one performance obligation.

The transaction price for the contract is determined as the sum of fixed consideration, other variable items, less an estimate of volume discounts if any. Other variable items such as higher/ lower employee numbers for PEPM charge (per employee per month amount charged to customer), credits for service level, third party penalties or inflationary increases are taken in the month they are received or incurred. Termination fees are taken at a point in time when the termination is complete.

For the sales of third-party license, a net commission is recognised at the point in time where benefits of ownership transfer to our customer.

Sales commissions are incremental costs to obtain a contract and hence, where significant, are deferred and released over the life of the contract.

Where the timing of revenue and profit recognition has changed the future estimated losses on any individual contract, the difference has been adjusted through provisions.

**Costs on contracts with customers**

An asset is recognised for incremental costs to obtain a contract, where the company expects to recover the costs.

An asset is recognised for costs to fulfil contracts if the following criteria are met:

- the costs are directly related to a contract;
- the costs generate or enhance the company's resources used in satisfying performance obligations in the future; and
- the costs are expected to be recovered.

The nature of costs that are eligible include direct labour and associated cost, sub-contractor costs, contract management and materials. Other costs such as general & administration, wasted resources and expenses that relate to satisfied performance obligations are all recognised as expenses.

The asset is amortised over the period that the benefit will be transferred to the customer. Assets are assessed for impairment.

**Provisions on contract losses**

A provision for contract losses is recognised on onerous contracts that are expected to make net losses for the remainder of the contract term, after taking into consideration impairment of contract assets.

**Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described above, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**2. Accounting policies (continued)**

**Critical accounting judgements and key sources of estimation uncertainty (continued)**

The following sets out the key assumptions concerning the future and key sources of estimation and uncertainty at the reporting date that may cause material adjustment to the carrying amounts of assets or liabilities within the next financial year.

*Revenue recognition*

The measurement of revenue and resulting profit recognition – due to the size and complexity of some of the company's contracts – requires significant judgements to be applied, including the measurement and timing of revenue recognition and the recognition of related statement of financial position items (such as contract assets, accrued revenue and contract liabilities that result from the performance of the contract).

The implementation phase for Payroll and HR Admin services and for Consultancy takes between zero to 18 months, during which time the related performance obligation is not being delivered to the customer. Under the contracts, Zellis is entitled to bill the customer during the implementation phase and hence contract liabilities are created. Correspondingly, costs incurred during this phase are assessed and, where they create a contract asset, are capitalised.

The company considers the services provided to the customers including the initial implementation, subsequent licencing and/or managed payroll, to be a combined single performance obligation. This is because these elements are not distinct and are interdependent. As a result, the company recognise revenue accordingly, which is spread over the contract period.

*Leases – Estimating the incremental borrowing rate*

The company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating.

***Key sources of estimation uncertainty***

*Pensions*

Details of the principal actuarial assumptions used in calculating the recognised liability for the defined benefit plans are given in note 22. Changes to the discount rate, mortality rates and actual return on plan assets may necessitate material adjustments to this liability in the future.

*Provisions*

Provisions are recognised in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events which can be reasonably estimated. The timing of recognition requires the application of judgement to existing facts and circumstances, which can be subject to change. Note 21 to the accounts contains information about the assumptions made concerning the companies' provisions.

**2. Accounting policies (continued)**

**Critical accounting judgements and key sources of estimation uncertainty (continued)**

*Recognition of internally generated intangible assets from development*

Under IAS38, internally generated intangible assets from the development phase are recognised if certain conditions are met. These conditions include the technical feasibility, intention to complete, the ability to use or sell the asset under development and the demonstration how the asset will generate probable future economic benefits. The cost of a recognised internally generated intangible asset comprises all directly attributable cost necessary to make the asset capable of being used as intended by management. In contrast, all expenditures arising from the research phase are expensed as incurred.

We believe that the determination whether internally generated intangible assets from development are to be recognised as intangible assets requires significant judgement, particularly in the following areas:

- The determination whether activities should be considered research activities or development activities;
- The determination whether the conditions for recognising an intangible asset are met requires assumptions about future market conditions, customer demand and other developments.
- The term 'technical feasibility' is not defined in IFRS, and therefore the determination whether completing an asset is technically feasible requires a company-specific and necessary judgemental approach;
- The determination of the future ability to use or sell the intangible asset arising from the development and the determination of probability of future benefits from sale or use, and
- The determination whether a cost is directly or indirectly attributable to an intangible asset and whether a cost is necessary for completing a development.

*Impairment of intangible assets, including goodwill*

Goodwill and other intangible assets are tested annually for impairment. The impairment tests involve estimation of future cash flows and the selection of a suitable discount rate. These require an estimation of the value-in-use of the cash generating units to which the intangible assets are allocated (note 12).

The recoverable amounts of goodwill are determined from value-in-use calculations which use discounted post-tax cash flows from approved budgets and five-year forecasts and extrapolated cash flows for the periods beyond these using estimated long-term growth rates.

The key assumptions are:

- Long term average growth rates are used to extrapolate cash flows. Growth rates are determined with reference to internal approved budgets and forecasts;
- Discount rates are specific to the company and reflect the individual nature and specific risks relating to the market in which it operates;
- Gross margins are based on past performance and management's expectations of market development. No improvements to margins beyond periods covered by approved budgets and forecasts have been assumed.

The Directors are required to review the goodwill at least annually for impairment of the carrying value as compared to the recoverable amount. The pre-tax discount rate used is 10.6%, 5-year forecasts and terminal growth rate of 2.5%. These have remained the same from prior financial year.

The surplus headroom above the carrying value of goodwill at 30 April 2020 was satisfactory.

**2. Accounting policies (continued)**

*Expected Credit Losses on Trade Receivables*

IFRS 9 introduced an Expected Credit Loss ('ECL') model. This requires an entity to consider historic, current and forward-looking information while assessing trade receivables impairment.

Trade receivables in the company arise from revenue transactions in accordance with IFRS 15 with no existing significant financing arrangement. Therefore, the simplified approach under IFRS 9 is adopted and lifetime ECL is applied.

Based on analysis of actual write offs, a provision matrix is applied for the trade receivables as follows:

| | |
|---|---|
| Not yet due | 0% |
| 0-89 days overdue | 5% |
| 90-179 days overdue | 10% |
| 180-269 days overdue | 20% |
| 270-359 days overdue | 20% |
| Over 360 days overdue | 100% |

Additional ECL has been provided for in light of Covid-19. For debtor balances arising from customers in the industries most affected by the pandemic listed below, 50% of the outstanding balances have been provided for, and the incremental provision is recorded as exceptional.

- Leisure
- Travel
- Retail & Wholesale (non-essential)
- Automotive & Transport

**Development Costs**

The amortisation rate for development costs is 5 years, based on the useful life of the assets.

**Goodwill**

Goodwill is stated at cost less any accumulated impairment losses. Purchased goodwill arising on business combinations in respect of acquisitions before 1 January 1998, when Financial Reporting Standard 10 Goodwill and intangible assets was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions since 1 January 1998 is capitalised. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure.

**Intangible assets other than goodwill**

Acquired intangibles and purchased software are stated at the cost less accumulated amortisation and impairment losses.

**2. Accounting policies (continued)**

***Research and development expenditure***

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the year in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

***Amortisation***

Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each reporting date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

| | |
|---|---|
| Purchased/developed software | 5 years |

**Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

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. Land is not depreciated. The estimated useful lives are as follows:

| | |
|---|---|
| Short leasehold improvements | Life of the lease |
| Fixtures, fittings and office equipment | 2-10 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset and is recognised in the income statement.

**Non-current investments**

Investments in subsidiary undertakings are stated at cost unless, in the opinion of the directors, there has been impairment to their value in which case they are immediately written down to their estimated recoverable amount.

**2. Accounting policies (continued)**

**Impairment of tangible and intangible non-current assets**

At each reporting end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

**Fair value measurement**

IFRS 13 establishes a single source of guidance for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The company is exempt under FRS 101 from the disclosure requirements of IFRS 13. There was no impact on the company from the adoption of IFRS 13.

**Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

**Financial assets**

Financial assets are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Financial assets are initially measured at fair value plus transaction costs, other than those classified as fair value through profit and loss, which are measured at fair value.

**Loans and receivables**

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

**2. Accounting policies (continued)**

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

**Impairment of financial assets**

Financial assets are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

**Derecognition of financial assets**

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

**Financial liabilities**

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

**Other financial liabilities**

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

**Derecognition of financial liabilities**

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled, or they expire.

**Equity instruments**

Following the adoption of IAS 32, financial instruments issued by the company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company 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 company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non- derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivation that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

**2. Accounting policies (continued)**

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 company'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.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost is correspondingly recognised in the profit and loss account over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholder's funds are dealt with as appropriate in the reconciliation of movements in shareholder's funds.

**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**

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 reporting date, and any adjustment to tax payable in respect of previous years.

**Deferred tax**

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

**Provisions**

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, it's carrying amount is the present value of those cash flows.

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

## 2. Accounting policies (continued)

**Employee benefits**

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of non-current assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

**Retirement benefits**

***Defined contribution plans***

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.

***Defined benefit plans***

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the company, the recognised asset is limited to the present value of benefits recoverable in the form of any future refunds from the plan or reductions in future contributions.

**Leases**

The company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Zellis UK as a lessee*

The company applies a single recognition and measurement approach for all leases, except for short term leases and leases of low value assets. The company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

**2. Accounting policies (continued)**

*Right-of-use assets*

The company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right- of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

| | |
|---|---|
| Building | 2-10 years |
| Equipment | 1-3 years |
| Motor vehicles | 1-3 years |
| Other | 1-3 years |

If ownership of the leased asset transfers to the company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment.

**Lease liabilities**

At the commencement date of the lease, lease liabilities are recognised and measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the company and payments of penalties for terminating the lease, if the lease term reflects the company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

**Short-term leases and leases of low-value assets**

The company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

**Finance costs**

Finance costs comprise interest payable, interest on the defined benefit pension plan obligations and expected return on pension scheme assets (together referred to as net pension finance expense), and amortisation of issue costs on borrowings.

**2. Accounting policies (continued)**

Interest payable is recognised in the income statement as it accrues, using the effective interest method.

**Foreign exchange**

Transactions in foreign currencies are translated to the company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting 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.

**Financial guarantee contracts**

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements, and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

### 3. Restatement of prior year balances

A prior period error understating the amortisation charge in FY19, relating to £16m pre-acquisition development costs adjustments from FY18, has resulted in a prior year restatement to rectify accumulated amortisation and underlying deferred tax impact as at April 2020.

The effect of the restatement on the statement of financial position as at 30 April 2019 was as follows:

| | **As previously reported** | **Restatements** | **As restated** |
|---|---|---|---|
| Other intangible assets | 14,114 | (3,401) | 10,713 |
| Deferred tax asset | 19,152 | 578 | 19,730 |
| **Total assets** | **188,217** | **(2,823)** | **185,394** |
| **Total liabilities** | **243,233** | **-** | **243,233** |
| Accumulated losses | (78,387) | (2,823) | (81,210) |
| **Total equity** | **(55,016)** | **(2,823)** | **(57,839)** |
| **Total equity and liabilities** | **188,217** | **(2,823)** | **185,394** |

The effect of the restatement on the statement of comprehensive income as at 30 April 2019 was as follows:

| | **As previously reported** | **Restatements** | **As restated** |
|---|---|---|---|
| Revenue | 100,612 | - | 100,612 |
| Operating costs | (96,860) | (3,401) | (100,261) |
| **Operating profit** | **3,752** | **(3,401)** | **351** |
| **Operating profit before separately disclosed items, amortisation of intangibles and depreciation of tangible fixed assets** | 30,618 | - | 30,618 |
| Amortisation of acquired intangibles | (5,528) | (3,401) | (8,929) |
| *Other expenses* | (21,338) | - | (21,338) |
| **Operating profit** | **3,752** | **(3,401)** | **351** |
| Other expenses | (238) | - | (238) |
| Tax | (3,006) | 578 | (2,428) |
| **Profit for the year** | **508** | **(2,823)** | **(2,315)** |

## 4. Revenue

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

| | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| **Continuing operations** | | |
| Licence, support and payroll services (all within the UK) | 98,388 | 100,612 |

| | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| **Deferred income / costs to contract assets & liabilities** | | |
| Contract assets – current | 7,467 | 5,929 |
| Contract assets – non-current | 12,645 | 13,636 |
| Contract liabilities – current | (29,735) | (27,937) |
| Contract liabilities – non-current | (35,941) | (40,129) |
| **Net contract liabilities** | **(45,564)** | **(48,501)** |

Significant judgements in relation to revenue recognition have been disclosed in note 2.

Contract assets are costs to fulfil contracts. The nature of costs that are eligible include direct labour and associated costs, sub-contractor costs, contract management and materials. Other costs such as general & administration, wasted resources and expenses that relate to satisfied performance obligations are all recognised as expenses.

Under the contracts, Zellis is entitled to bill the customer during the implementation phase, but revenue is not recognised until performance obligation is satisfied (at go live); hence contract liabilities are recognised for amounts billed during the implementation phase.

| | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| **Revenue recognised in relation to contract liabilities** | | |
| Revenue recognised that was included in the contract liability balance at the beginning of the periods | 27,938 | 27,458 |

**4. Revenue (Continued)**

No revenue has been recognised from performance obligations satisfied in previous periods.

| | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| **Unsatisfied long-term contracts** | | |
| Aggregate amount of contracts partially or fully unsatisfied as at 30 April | 208,000 | 206,914 |

Management expects that of the transaction price allocated to the unsatisfied contracts as of 30 April 2020 of £208.0m (2019: £206.9m) will be recognised as revenue in the next reporting period. £81m, £57m, £41m, £23m and £6m will be recognised as revenue in reporting periods ending 30 April 2021, 30 April 2022, 30 April 2023, 30 April 2024 and 30 April 2025 respectively.

| | 2020 | 2019 |
|---|---|---|
| **Assets recognised from costs to fulfil a contract** | £'000 | £'000 |
| Asset recognised from costs incurred to fulfil contracts at 30 April | 20,110 | 19,565 |
| Amortisation recognised as cost of providing services during the period | 6,648 | 5,588 |

**Performance obligations**

A performance obligation is deemed the goods or services that we have agreed within the customer contract and are deemed fulfilled when the customer can utilise those goods or services. This is where the technology can be utilised for its intended purpose (project go live) or when the service has been completed (running an outsource payroll).

There may be separate performance obligations within a single customer contract. Where the obligations are defined, these will be dealt with as a separate go live instance, and the transaction price will be apportioned appropriately. Where the separate obligations are not defined, then unless deemed to be material the contract will be treated as one performance obligation.

## 5. Operating costs

| | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| Operating (loss)/profit for the year is stated after charging/(crediting): | | |
| - Wages and salaries | 44,315 | 44,544 |
| - Social security costs | 4,315 | 4,565 |
| - Pension costs | 3,987 | 5,130 |
| Amortisation of intangible assets | 9,632 | 8,929 |
| Depreciation of property, plant and equipment | 870 | 737 |
| Depreciation of Leased assets | 4,685 | 4,474 |
| Research and development costs | 1,814 | 1,679 |
| Other operating charges | 6,305 | 13,052 |
| Management charges | 4,136 | 1,024 |
| Significant separately disclosed items | | |
| - Severance and restructuring | 913 | 1,064 |
| - Business transformation and integration | 8,495 | 14,753 |
| - Significant events or external circumstances | 1,849 | 310 |

Following the acquisition of the group by Bain Capital in February 2018, major transformations took place leading to material costs.

This included the initial carve out of the NGA UK business from the previous parent company, the implementation of new tools, systems and management structure to drive return on investment. In addition, the business also incurred costs from material one-off external events (IFRS transition and Covid-19). These costs do not reflect the underlying trading results and are predominantly a result of the acquisition by Bain Capital because they would not have been incurred had the acquisition not taken place. Therefore, they are separately identified and reported which enables the shareholders and management to better understand the performance for the year and comparability between periods.

The costs relevant to the company are categorised into three main areas below.

1) Severance and restructuring. Following the acquisition by Bain Capital, the business undertook a major strategic review, engaged third party specialists and instigated a restructuring of the business. This has included some changes in personnel including putting in place a new Senior Management team and the central functions required to run the business as a separate group of entities. There were also costs in relation to redundancies.

The business undertook a major update of its IT infrastructure following the carve out from its former parent company which included the implementation of a new ERP system, CRM and case management system.

The business also rebranded the Enterprise Payroll and HR business from 'NGA UK' to 'Zellis' which was successfully launched in February 2019 with some carry over of activities and costs into the year ended 30 April 2020.

In addition, the group undertook some one-off activities to set up business processes to ensure the business was compliant as a separate group of entities. This included advisory and adaption of compliance procedures and the setting up of transfer pricing policies and procedures.

**5. Operating costs (continued)**

2) Business Transformation and integration. Following the carve out from the previous parent, the group has initiated a number of transformation projects to improve efficiency, enhance systems, rebrand ResourceLink, drive growth and reduce costs. This includes a major programme to improve customer experience (including customer remediation) while reducing manual input by implementing digital workflows in our managed services business to achieve automated processes and improve first time accuracy.

Data security is crucial to the company as we handle a large amount of sensitive personal data via payroll & HR services. As we were no longer covered by the NGA's data security regime, we performed comprehensive security reviews and set up new security processes and frameworks, that will ensure we have a best in class system to support our customers as we enhance our product portfolio.

As a result of efficiency driven transformations, we have undergone wider restructure which led to retention of key business units and redundancies of roles that are no longer required.

As part of the overarching business review and execution of the strategic plan, a review of the commercial and pricing position of the business was undertaken. This led to the implementation of new policies and procedures which required dedicated programme resource.

The company's offices are located in 14 locations across the UK. The business is undertaking a review of the property portfolio and a property rationalisation programme to reduce the number of properties while improving working environments for employees.

3) Significant events or external circumstances. In the prior year, we implemented the new accounting standards IFRS 9, IFRS 15 and IFRS 16, which led to significant projects requiring external and dedicated internal support. These costs were one off and are not recurring. This year, following unprecedented changes in global landscape, we have made a specific bad debt provision against the potential credit losses predicted in light of the Covid-19 pandemic.

**6. Auditor's remuneration**

The analysis of the auditor's remuneration is as follows:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Fees payable to the company's auditor | | |
| **For audit services** | | |
| Audit of the financial statements of the company | 73 | 197 |

Amounts paid to the company's auditor in respect of services to the company other than audit of these financial statements have not been disclosed as the information is instead disclosed on a consolidated basis in the financial statements of Zellis Holdings Limited.

**7. Directors' remuneration**

The directors' remuneration in respect of services to the company have not been disclosed as it is not possible to accurately allocate directors' time to each legal entity within the group. As a result, the full disclosure is presented in the consolidated financial statements of the parent entity, Zellis Holdings limited.

## 8. Employees

The average monthly number of employees (including executive directors) employed by the company during the year was:

| | 2020 Number | 2019 Number |
|---|---|---|
| Sales | 64 | 77 |
| Managed services | 393 | 463 |
| Technology support | 266 | 329 |
| Implementation services | 150 | 163 |
| Administration | 90 | 84 |
| | **963** | **1,116** |

## 9. Finance income

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Interest income** | | |
| Interest on bank deposits | 1 | 2 |
| Interest receivable from group companies | 1,147 | 3,349 |
| | **1,148** | **3,351** |

## 10. Finance costs

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Interest on financial liabilities measured at amortised cost** | | |
| Interest on bank overdrafts and loans | 558 | 354 |
| Interest on finance leases and hire purchase contracts | 724 | 979 |
| Interest payable to group undertakings | 919 | 921 |
| | **2,201** | **2,254** |
| **Interest on other financial liabilities:** | | |
| Interest on the net defined benefit liability | 1,248 | 1,052 |
| **Total interest expense** | **3,449** | **3,306** |
| **Other finance costs:** | | |
| Unwinding of discount on provisions | 72 | 112 |
| Foreign exchange loss | 389 | 171 |
| **Total finance costs** | **3,910** | **3,589** |

## 11. Tax

The tax (credited)/charged to the income statement is as follows:

| | 2020 £'000 | 2019 Restated £'000 |
|---|---|---|
| **Current tax** | | |
| Adjustments in respect of prior periods | - | 116 |
| **Total current tax** | **-** | **116** |
| | | |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | 769 | 1,882 |
| Changes in tax rates | (2000) | (198) |
| Adjustment in respect of prior periods | (1,397) | 628 |
| **Total deferred tax** | **(2,628)** | **2,312** |
| | | |
| **Total tax (credited)/charged** | **(2,628)** | **2,428** |

The tax charge/ (credit) for the year can be reconciled to the profit / (loss) in the income statement as follows:

| | 2020 £'000 | 2019 (Restated) £'000 |
|---|---|---|
| Profit before tax | 4,310 | 113 |
| Tax at the UK corporation tax rate of 19% | 819 | 667 |
| Effect of expense not deductible in determining taxable profit | (50) | 179 |
| Adjustments in respect of previous periods | (1,397) | 745 |
| Effect of changes in UK corporation tax rate | (2,000) | (198) |
| Group relief | - | 1,035 |
| **Tax (credited)/charged for the year** | **(2,628)** | **2,428** |

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised in other comprehensive income:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Deferred tax charge:** | | |
| Actuarial differences recognised as other comprehensive income | 775 | (1,926) |

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2018) were substantively enacted on 26 October 2015.

**12. Intangible fixed assets**

| | Goodwill | Other Intangible Assets | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Cost:** | | | |
| At 1 May 2018 | 75,138 | 52,306 | 127,444 |
| Additions | - | 10,775 | 10,775 |
| Transfers to right to use assets | - | (3,820) | (3,820) |
| **At 30 April 2019** | **75,138** | **59,261** | **134,399** |
| Additions | - | 8,254 | 8,254 |
| Write off | - | (249) | (249) |
| Transfers | - | (4,755) | (5,004) |
| **At 30 April 2020** | **75,138** | **62,511** | **137,649** |
| **Amortisation:** | | | |
| At 1 May 2018 | 1,782 | 39,960 | 41,742 |
| Charge for the year (restated) | - | 8,929 | 8,929 |
| Transfers to right of use assets | - | (341) | (341) |
| **At 30 April 2019 (restated)** | **1,782** | **48,548** | **50,330** |
| Charge for the year | - | 9,632 | 9,632 |
| Transfers | - | (2,428) | (2,428) |
| **At 30 April 2020** | **1,782** | **55,752** | **57,534** |
| **Net book value:** | | | |
| At 30 April 2020 | 73,356 | 6,759 | 80,115 |
| At 30 April 2019 | 73,356 | 10,713 | 84,069 |

The amortisation for year ended April 2019 has been restated to correct a prior period error. The effect of the restatement is summarized in the note 3.

During the year some development cost has been transferred from the company to Moorepay limited (Cost of £4.8m and Accumulated amortisation of £2.4m).

Impairment assessment on goodwill is performed on an annual basis. No indication of impairment was identified.

The assessment applies a discounted cashflow model with financial forecasts from the group's 5-year plan which embedded the impact from Covid-19 pandemic and was agreed with the Board. The pre-tax discount rate (10.6%) and terminal growth rate (2.5%) applied was obtained from third party specialists at acquisition.

A sensitivity analysis was also performed which indicated that a combination of significant downturns in business performance will need to occur in order to result in impairment. These include scenarios whereby the company suffers material reduction in forecasted new annual recurring revenue in FY21, further reduction in new managed services business, no indexation is applicable on pricing for 3 years, additional contractual risk and churn, and reduction in initiatives, etc. Management consider each of these scenarios to be highly unlikely based on existing business performance and forecast, and the chance that the combination of them occurring concurrently is extremely remote.

**13. Property, plant and equipment**

| | Short leasehold improvements £'000 | Fixtures & fittings and office Equipment £'000 | Total £'000 |
|---|---|---|---|
| **Cost:** | | | |
| At 1 May 2018 | 1,009 | 7,594 | 8,603 |
| Additions | - | 444 | 444 |
| Disposals | - | - | - |
| Write off | (10) | - | (10) |
| Transfers | - | (3,978) | (3,978) |
| **At 30 April 2019** | **999** | **4,060** | **5,059** |
| Additions | 2 | 646 | 648 |
| Write off | - | (1,000) | (1,000) |
| **At 30 April 2020** | **1,001** | **3,706** | **4,707** |
| | | | |
| **Accumulated depreciation and impairment:** | | | |
| At 1 May 2018 | 369 | 4,067 | 4,436 |
| Charge for the year | 109 | 628 | 737 |
| Written off | (10) | - | (10) |
| Transfers | - | (3,030) | (3,030) |
| **At 30 April 2019** | **468** | **1,665** | **2,133** |
| Charge for the year | 100 | 770 | 870 |
| Write off | - | (833) | (833) |
| **At 30 April 2020** | **568** | **1,602** | **2,170** |
| | | | |
| **Net book value** | | | |
| At 30 April 2020 | 433 | 2,104 | 2,537 |
| At 30 April 2019 | 531 | 2,395 | 2,926 |

### 14. Investments

| | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| Investments in subsidiaries | 15 | 15,501 | 15,501 |

The company has not designated any financial assets that are not classified as held for trading as financial assets at fair value through profit or loss.

**Fair value of financial assets carried at amortised cost**

Except as detailed below the directors believe that the carrying amounts of financial assets carried at amortised cost in the financial statements approximate to their fair values.

**Movements in non-current investments**

| | Shares in group undertakings £'000 |
|---|---|
| **Cost of valuation** | |
| At 1 May 2019 | 16,562 |
| Additions | - |
| Disposals | - |
| At 30 April 2020 | 16,652 |
| **Impairment** | |
| At 1 May 2019 | (1,061) |
| Liquidated | - |
| Disposals | - |
| At 30 April 2020 | (1,061) |
| **Carrying amount** | |
| At 30 April 2020 | 15,501 |
| At 30 April 2019 | 15,501 |

### 15. Leases

This note provides information for leases where the company is a lessee. The company has lease contracts for various items of buildings, plant, machinery, vehicles and other equipment used in its operations. The company's obligations under its leases are secured by the lessor's title to the leased assets. The statement of financial position shows the following amounts relating to leases:

| | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| **Right-of-use asset** | | |
| Building | 6,110 | 7,538 |
| Equipment | 2,394 | 4,259 |
| Vehicles | 146 | 262 |
| Other | **8,650** | **12,059** |
| | | |
| **Lease liabilities** | | |
| Current | 3,254 | 4,246 |
| Non-current | 6,352 | 9,105 |
| | **9,606** | **13,351** |

The income statement shows the following amounts relating to leases:

| | 2020 | 2019 |
|---|---|---|
| **Depreciation charge of right-of-use asset** | £'000 | £'000 |
| Building | 1,468 | 1,630 |
| Equipment | 3,100 | 2,728 |
| Vehicles | 117 | 116 |
| | **4,685** | **4,474** |
| | | |
| Interest expense | 724 | 979 |
| | | |
| **Total recognised in the profit and loss** | **5,409** | **5,453** |

The total cash outflow for leases was £5,884k (2019: £6,760k).

The company had non-cash transfer of right of use assets from intangible fixed assets of £343k (2019: £3,480k) and property, plant and equipment of nil (2019: £948k). Leased asset addition was £933k (2019: £3,710k) in the year.

## 16. Trade and other receivables

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Debt instruments at amortised costs** | | |
| Trade receivables | 10,999 | 12,572 |
| Less allowance for expected credit losses | (1,818) | (526) |
| Net trade receivables | 9,181 | 12,046 |
| Accrued income | 1,655 | 2,798 |
| Prepayment and other receivables | 3,359 | 4,443 |
| Amounts due from group undertakings | 11,728 | 9,273 |
| **Total trade and other receivables** | **25,922** | **28,560** |

Included within the amounts due from group undertakings is a £447k (2019: £500k) IFRS 9 expected credit loss on the intercompany receivable balance.

Allowance for expected credit losses from trade receivables can be analysed as follows:

**Movement in the allowance for expected credit losses:**

| | £'000 |
|---|---|
| **At 1 May 2018** | 288 |
| Provision for expected credit losses | 475 |
| Utilised in period | (237) |
| **At 30 April 2019** | **526** |
| Provision for expected credit losses | 1,371 |
| Utilised in period | (79) |
| **At 30 April 2020** | **1,818** |

**17. Subsidiaries**

The company's subsidiary undertakings at 30 April 2020, the nature of whose business is the development and supply of software and related services, and have only ordinary share capital, were:

| Name of undertaking | Registered office | Ownership interest (%) |
|---|---|---|
| Zellis Dormco Limited | England and Wales | 100.00 |
| Zellis Information Solutions Company Limited | Republic of Ireland | 100.00 |
| Zellis Ireland Limited* | Republic of Ireland | 100.00 |
| Cara Information Technology Limited ** | England and Wales | 100.00 |
| Zellis Services Ireland Limited ** | Republic of Ireland | 100.00 |
| Engage Technologies Support Limited ** | Republic of Ireland | 100.00 |
| Engage Technologies Limited ** | Republic of Ireland | 100.00 |

* Subsidiary of Zellis Information Solutions Company Limited

** Subsidiary of Zellis Ireland Limited

All subsidiaries with a registered office in England and Wales have registered office at Peoplebuilding 2, Maylands Avenue, Hemel Hempstead, Hertfordshire, HP2 4NW, United Kingdom.

All subsidiaries with a registered office in Republic of Ireland have registered office at Behan House, 10 Mount St Lower, Dublin 2, Republic of Ireland.

**18. Trade and other payables**

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Trade payables | 3,238 | 2,213 |
| Amounts due to group undertakings | 90,046 | 87,188 |
| Accruals | 6,248 | 11,933 |
| Other taxation and social security | 6,229 | 5,569 |
| Other payables | 471 | 551 |
| **Total trade and other payables** | **106,232** | **107,454** |

**19. Contract liabilities**

| | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Balance to be recognised within one year | 29,735 | 27,937 |
| Balance to be recognised after one year | 35,941 | 40,129 |
| **Total contract liabilities** | **65,676** | **68,066** |

**20. Deferred tax**

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

| | Accelerated Capital allowances | Tax losses | Retirement benefit obligations | Other | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| At 1 May 2018 | 4,490 | 483 | 8,220 | 372 | 13,565 |
| Adoption of accounting policy | 126 | 6,426 | - | - | 6,552 |
| Charge/(credit) to profit or loss (restated) | (879) | (470) | (712) | 954 | (1,107) |
| Adjustment in respect of prior years | - | - | - | (1,206) | (1,206) |
| Charge to profit or loss | - | - | 1,926 | - | 1,926 |
| **At 30 April 2019 (Restated)** | **3,737** | **6,439** | **9,434** | **120** | **19,730** |
| (Credit)/charge to profit or loss | (34) | 2,984 | (202) | (120) | 2,628 |
| Credit to other comprehensive income | - | - | (775) | - | (775) |
| **At 30 April 2020** | **3,703** | **9,423** | **8,457** | **-** | **21,583** |

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

| | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| Deferred tax assets | 21,583 | 19,730 |

**21. Provision for liabilities**

| | £'000 |
|---|---|
| At 1 May 2019 | 1,472 |
| Utilisation | (113) |
| Additions | 397 |
| Discount unwind | 74 |
| **At 30 April 2020** | **1,830** |

The provision relates to legal provision and dilapidations provision for repairs and redecorations at the end of the lease.

**22. Retirement benefit schemes**

**Defined contribution schemes**

The company participates in a defined contribution scheme. The assets of the scheme are held separately from those of the company in an independently administered fund.

The total costs charged to income in respect of defined contribution plans is £1,272k (2019: £1,339k).

**Defined benefit scheme**

The company operates two defined benefit schemes, the Northgate HR Pension Scheme and the Rebus Group Pension Scheme, both of which are closed to new entrants. The information disclosed below is in respect of the whole of the plans for which the company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

Benefits are related to salary close to retirement or leaving service (if earlier) and also to years of pensionable service. Assets are held in separate, trustee administered funds. Employer contributions to the schemes are determined on the basis of regular valuations undertaken by independent, qualified actuaries. As the schemes are closed to new entrants for pension accrual, under the method used to calculate pension costs in accordance with IAS 19, the cost as a percentage of covered pensionable payroll will tend to increase as the average age of the membership increases.

These defined benefit plans expose the company to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk.

**Funding**

Both plans are funded by the Group's subsidiaries. Over the next year, the Group will pay estimated contributions of £1.5m (2019: £5.5m) to the defined benefit schemes. The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. This includes the additional contributions aimed at removing the deficit of the Schemes. Contributions to the defined contribution schemes are in addition to the contributions to the UK defined benefit schemes.

**22. Retirement benefit schemes (continued)**

**Movements in the net defined benefit liability**

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit and its components.

| | Defined benefit obligation £'000 | Fair value of plan assets £'000 | Net defined benefit liability £'000 |
|---|---|---|---|
| **At 30 April 2018** | **263,205** | **(218,702)** | **44,503** |
| Acquired through business combinations | | | |
| **Included in income statement** | | | |
| Current service cost | 875 | - | 875 |
| Past service | 2,500 | 416 | 2,916 |
| Interest expense/(income) | 7,014 | (5,962) | 1,052 |
| | **10,389** | **(5,546)** | **4,843** |
| **Included in statement of comprehensive income:** | | | |
| Remeasurement loss (gain): | | | |
| Financial assumptions | 21,302 | - | 21,302 |
| Demographic | (1,429) | - | (1,429) |
| Experience adjustment | (188) | - | (188) |
| Impact of asset ceiling | 0 | (1,868) | (1,868) |
| Return on plan assets excluding interest income | - | (6,487) | (6,487) |
| | **19,685** | **(8,355)** | **11,330** |
| **Other** | | | |
| Contribution paid by the employer | - | (7,786) | (7,786) |
| Benefits paid | (6,427) | 6,427 | - |
| | **(6,427)** | **(1,359)** | **(7,786)** |
| **Net book value At 30 April 2019** | **286,852** | **(233,962)** | **52,890** |

**21. Retirement benefit schemes (continued)**

| | Defined benefit obligation £'000 | Fair value of plan assets £'000 | Net defined benefit liability £'000 |
|---|---|---|---|
| **At 30 April 2019** | **286,852** | **(233,962)** | **52,890** |
| Acquired through business combinations | | | |
| **Included in income statement** | | | |
| Current service cost | 854 | 418 | 1,272 |
| Interest expense / (income) | 7,076 | (5,828) | 1,248 |
| | **7,930** | **(5,410)** | **2,520** |
| **Included in statement of comprehensive income:** | | | |
| Financial assumptions | 24,794 | - | 24,794 |
| Demographic | 3,324 | - | 3,324 |
| Experience adjustment | (5,407) | - | (5,407) |
| Return on plan assets excluding interest income | - | (29,345) | (29,345) |
| | **22,711** | **(29,345)** | **(6,634)** |
| **Other** | | | |
| Contribution paid by the employer | - | (5,881) | (5,881) |
| Benefits paid | (7,686) | 7,686 | - |
| | **(7,686)** | **1,805** | **(5,881)** |
| **Net book value At 30 April 2020** | **309,807** | **(266,912)** | **42,895** |

**Fair value of plan assets**

The plan assets are all in investment funds which do not have quoted prices, although the majority of assets held within those funds will have quoted prices. The assets with the funds are split as follows:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Equities | 18,120 | 19,227 |
| LDI Funds | 81,070 | 56,895 |
| Multi-asset credit | 14,487 | 15,046 |
| Private credit | 15,421 | 15,747 |
| Property | 24,152 | 23,362 |
| Asset backed securities | 47,637 | 22,124 |
| Diversified growth funds | 44,494 | 44,413 |
| Cash and current assets | 21,531 | 37,148 |
| | **266,912** | **233,962** |

**21. Retirement benefit schemes (continued)**

The expected rate of return on pension plan assets is determined as the Group's best estimate of the long-term return of the major asset classes - equities, bonds, LDI, and diversified growth funds - weighted by the current strategic allocation at the measurement date less expenses.

**Defined benefit obligation**

**Actuarial assumptions**

The principal actuarial assumptions at the balance sheet date were:

| | Northgate HR scheme | Rebus scheme |
|---|---|---|
| | pa | pa |
| Discount rate | 1.6% | 1.6% |
| Future salary increases | 1.0% | 1.0% |
| Retail price inflation | 2.3% | 2.4% |
| Consumer price inflation | 1.6% | 1.7% |
| Future pension increases (2.5% LPI) | 1.7% | 1.5% |
| Future pension increases (5%LPI) | 2.3% | 1.8% |

The weighted average durations of the expected benefit payments is about 18 years for the Northgate Scheme and 20 years for the Rebus Scheme. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows.

| | Northgate HR scheme | Rebus scheme |
|---|---|---|
| | pa | pa |
| **Life expectancy at age 65 now** | | |
| Males | 22.2 | 22.2 |
| Females | 24.6 | 24.6 |
| **Life expectancy at age 65 in 20 years** | | |
| Males | 23.5 | 23.5 |
| Females | 26.0 | 26.0 |

**Sensitivity analysis**

Reasonable possible changes at the reporting date to one of the relevant actuarial assumptions, holding the other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

| | £'000 Increase | £'000 Decrease |
|---|---|---|
| Discount rate (0.1% movement) | (5,795) | 5,955 |
| Inflation and related future pension growth (0.1% movement) | 2,696 | (2,642) |
| Future salary growth (0.1% movement) | - | (379) |
| Life expectancy (1 year movement) | 12,634 | (12,613) |

## 22. Share capital

| | 2020 | 2019 |
|---|---|---|
| | £ | £ |
| **Authorised, issued and fully paid:** | | |
| 20,010,000 Ordinary of £1 each (2019: 20,010,000) | 20,010 | 20,010 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

## 23. Contingent liabilities

The company has in the normal course of business issued guarantees securing the performance by itself and other group undertakings of certain contracts and undertakings from which no liabilities are expected to arise other than those provided for in these accounts.

The company participates in the group's syndicated banking facility agreement.

The group has syndicated Senior facility agreements with the bank providing £280m of available funding. Of this facility, the group has the following available committed floated rate borrowing activities as at 30 April 2020 in respect of which all conditions precedent had been met at that date:

| | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| Expiring between 2 and 10 years | 290,068 | 279,727 |

## 24. Controlling party

The immediate parent company is Zellis Holdings Limited, a company registered in England and Wales. The ultimate parent company is Zellis Holdco S.à.r.l, a company registered in Luxembourg. The Company is ultimately controlled by Bain Capital Europe Fund IV LP.

The smallest undertaking for which the company is a member and for which group financial statements are prepared is Zellis Topco Limited.

The largest undertaking for which the company is a member and for which group financial statements are prepared is Zellis Holdco S.a.r.l.

Copies of accounts can be obtained from Peoplebuilding 2, Peoplebuilding Estate, Maylands Avenue, Hemel Hempstead, Hertfordshire, HP2 4NW.

The ultimate controlling party of the group as at 30 April 2020 was Bain Capital Europe Fund IV LP.