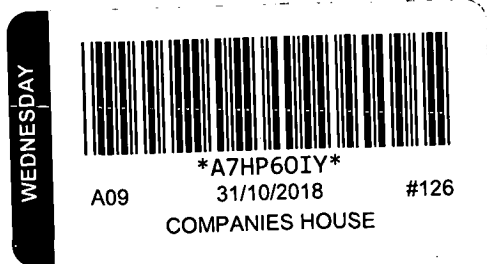


Adam Smith International Limited

FINANCIAL STATEMENTS

for the year ended

31 December 2017



Adam Smith International Limited
DIRECTORS, OFFICERS AND ADVISERS

DIRECTORS

Mr Rod Slee (Non-executive Acting Chair)
Mr J Pell
Mr R George

SECRETARY

Ms R Jefferies

COMPANY NUMBER

02732176 (England and Wales)

REGISTERED OFFICE

240 Blackfriars Road
London
SE1 8NW
United Kingdom

AUDITOR

RSM UK Audit LLP
Marlborough House
Victoria Road South
Chelmsford
Essex
CM1 1LN
United Kingdom

BANKERS

Allied Irish Bank Plc
City Business Centre
26 Finsbury Square
London
EC2R 1DS
United Kingdom

Adam Smith International Limited

DIRECTORS' REPORT

The Directors present their Annual Report on the affairs of Adam Smith International Limited (hereafter "the Company"), together with the accounts and the auditor's report for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company focuses its performance on the triple bottom-line framework: social, financial, and environmental performance.

The principal activity of the Company is social - our people, who often risk their lives to achieve results in very difficult and dangerous conditions, help make the world a safer and more secure place, help alleviate poverty, and help incomes and economies to grow.

We do this by providing advisory and project implementation services to governments, international development organisations and businesses across the world. Our practices specialise in government reform and economic growth. We employ leading experts, with specialist skills, to tackle some of the world's most complex development challenges. Much of our work is in fragile and conflict-affected countries.

In 2017, assignments for our clients included:

- raising incomes by improving oilseed farming in Malawi
- improving the effectiveness and efficiency of the public sector in Samoa
- reducing poverty in Sierra Leone by improving agricultural practice and markets
- improving the investment climate for mining in Mongolia
- reducing corruption in Uganda
- supporting the growth of small business in Democratic Republic of Congo
- creating a better business environment in Nigeria

PENSION SCHEME

The Company operates a defined contribution pension scheme. Contributions during the year amounted to £338,231 (2016: £249,687).

THIRD PARTY INDEMNITY INSURANCE PROVISION FOR DIRECTORS

Qualifying third party indemnity insurance provision was in place for the benefit of all directors of the company.

DIRECTORS

The following directors have held office since 1 January 2017 and through to the date of this report:

Mr R Slee (Non-Executive, Acting Chair)
Mr J Pell
Mr R George
Ms R English (Non-Executive, resigned 30 April 2018)
Mr K Prince (resigned 3 May 2018)
Sir M S Davidson (Non-Executive, appointed 27 March 2017, resigned 25 August 2017)
Sir M Rifkind (Non-Executive, resigned 25 August 2017)
Mr W S Morrison (resigned 2 May 2017)
Mr L Bunni (resigned 31 March 2017)
Mr P Young (resigned 31 March 2017)
Mr A Shrivastava (resigned 31 March 2017)

STRATEGIC REPORT

The Company has chosen in accordance with section 414C (11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 to set out in the Company's strategic report information required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. It has done so in relation to Future Developments and Financial Instruments.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

AUDITOR

The auditor, RSM UK Audit LLP, Chartered Accountants has indicated its willingness to continue in office.

240 Blackfriars Road
London
SE1 8NW
United Kingdom
(registered office)

On behalf of the Board



R Slee
Acting Chair

20 September 2018
Date

The Directors present their Strategic Report for the year ended 31 December 2017.

REVIEW OF BUSINESS DEVELOPMENTS

Financial Results

The Company's turnover declined to £105.8 million from £154.2 million in the previous year, a decline of 31%. Gross profit margin increased to 22% in 2017 from 20% in 2016. This represents a return to margins prior to 2016, a year which suffered from depreciation of sterling against the US dollar. The operating profit for the year under review fell to £5.5 million against £17.9 million in the previous year. The profits after tax for the year under review increased to £7.4 million as against £19.1 million in the previous year, a decline of 61%. The Statement of Financial Position remains strong with net assets of £68 million (2016: £62.1 million).

The contraction in revenue in 2017 was driven by the Company's voluntary withdrawal from tendering for DFID contracts from February 2017 to February 2018. This prompted a major restructuring and reorganisation to create a leaner and more efficient business, bringing the cost base in line with lower revenue and profit expectations during a period of rebuilding. The full impact of these cost saving measures will only be seen in 2018 results.

Key performance indicators

Management uses a number of performance indicators as part of managing the business. These are reported and monitored throughout the year and include the following:

- Social Impact
 - Projects: results delivered and value for money achieved for clients
 - Employees: employee satisfaction, diversity and inclusion
- Financial Impact
 - Revenue, profitability and cash flows to set targets
 - Quality, level and conversion rates of the sales pipeline and level of sales order book
 - Size and duration of engagements
 - Staff utilisation

Indicators in relation to environmental impact will be monitored from 2018 onwards.

Board Restructuring

The ongoing transition to employee ownership led to significant changes at board level and we are now confident we have the right leadership team in place to achieve our strategic objectives. The board continues to consider suitable non-executives to strengthen its experience and capabilities.

INTERNAL CONTROL AND RISK MANAGEMENT

Introduction

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. The Board regularly reviews the effectiveness of the Company's system of financial and non-financial internal controls, including operational and compliance controls and risk management. As part of our reform programme, internal controls and risk management were strengthened in 2017.

The Board is of the view that an ongoing process for identifying, evaluating and managing the Company's significant risks has been in place for the year ended 31 December 2017 and up to the date of approval of the Annual Report and Accounts. The Board monitors the risks of the Company on a regular basis to ensure significant risks have been identified, evaluated, managed and controlled and that necessary actions have been or are being taken to remedy any significant failings identified. Risk is measured in terms of impact, inherent risk and residual risk, and takes account of management's control actions in mitigating against both external and internal risk events.

There is clear accountability for risk management throughout the business; risk is a key performance area of line managers throughout the Company. Continuous monitoring of risk and control processes by management, across headline risk areas and other business-specific risk areas, provides the basis for regular and exception reporting to the Board.

Exposure to risks

The Board's oversight of risk covers all significant risks to the Company, including strategic, financial, operational and governance risk, which could impact on the achievement of business objectives.

Strategic

- **Market Concentration:**
High proportion of funding from DFID and the Company's relationship with DFID, and also on the donor-funded "technical assistance" service line more generally, leaving the Company vulnerable to changes in these key markets.
- **Reputational risk:**
Failure to meet the expectations of clients and the wider public in the ethical delivery of publicly funded development projects may result in a reluctance to award contracts to the Company. The Company has invested significantly in the training of staff across its network in the prevention of bribery, meeting the requirements of the UN Global Compact, the UK Modern Slavery Act, a comprehensive Code of Conduct, prevention of conflicts of interest and safeguarding measures. The Board maintains a regular oversight of the effectiveness of this training.

Finance

- **Liquidity and credit risk:**
The Company is exposed to liquidity risk arising from the need to finance its ongoing operations and growth. If the Company is unable to obtain sufficient credit due to banking and capital market conditions, the Company may not be able to raise sufficient funds to develop new projects or meet the Company's ongoing financing needs and as a result operating results, revenues, cash flows or financial condition may be adversely affected.
- **Currency risk:**
Because of the global nature of its business, the Company is exposed to currency risk where transactions are not conducted in Sterling. Fluctuations in the exchange rates of the most important currencies influencing operating costs may adversely affect financial results to a material extent. The Company uses forward currency contracts, to manage currency risks arising from the Company's operations. The Company does not trade in financial instruments. The Company's treasury policies are designed to mitigate the impact of fluctuations in exchange rates and to manage the Company's financial risks. The Board approves any changes to the policies. The Company does not enter into any other financial instruments other than normal short-term creditors and debtors on normal commercial terms.
- **Fraud and corruption risk:**
Given the challenges faced by many of the countries in which we operate, we are exposed to fraud and corruption risk. The Company further strengthened its Internal Audit and Legal, Ethics and Compliance functions during 2017. These functions are charged with ensuring that our procedural framework is robust and responsive to an evolving legal and regulatory environment and report activities and issues to the Audit Committee on a quarterly basis.

Operational

- **Political, legal and regulatory risk:**
The Company's businesses may be affected by political or regulatory developments in any of the countries and jurisdictions in which the Company operates. Political instability can also result in civil unrest or nullification of existing agreements. Any of these threats may adversely affect the Company's operations or the results of those operations. The Company actively monitors regulatory and political developments on a continuous basis.
- **Programme delivery risk:**
Failure to meet project delivery times and costs could have a negative effect on operational performance and lead to increased costs or reductions in revenue and profitability. A number of strategies are used to mitigate these risks including management oversight of operating performance and project delivery through regular management briefings, increased effectiveness of procurement activities and business improvement initiatives to reduce costs and improve delivery of projects.

Adam Smith International Limited

STRATEGIC REPORT (continued)

Governance

- Board effectiveness risk:
Reforms in the sector and of the business itself has driven significant changes in Board composition during 2017 and into 2018. This has cleared the way to establishing a leaner Board as the Company pursues its ambitious diversification and growth plans.
- Management oversight and control risk:
Rapid growth and plans to diversify also poses a significant challenge to the executive management of the Company. Strengthened Board oversight, including an Audit Committee, Remuneration Committee and Nominations Committee, is in place to hold management to account for its performance. Our independent Internal Audit function, which reports directly into the Audit Committee, also plays an important role in providing objective oversight and advice to both the Board and executive management.
- Financial controls risk:
Identifying and eliminating weaknesses in the design and application of key financial controls, procedures and systems are a risk in the context of a complex, multinational business that operates in some very difficult locations. The Company has a Finance and Risk function in place to provide oversight and advice in relation to financial controls, procedures and systems. Reporting directly to the Audit Committee, this function places particular emphasis on ensuring consistency and quality across the entire business, including the most remote operational locations.
- Conflict of interest risk:
With responsibility for managing large amounts of public funds, the Company encounters conflicts of interest that need to be managed proactively and decisively. The Legal, Ethics and Compliance function maintains a framework of policies, procedures and systems to ensure that all conflicts of interest are reported and managed effectively on a timely basis from Board level down.

Financial risk management objectives

The Board seeks to identify those financial risks which it believes the management of the business is better placed to manage than can be achieved by the procurement of hedging, insurance or other financial risk instruments. For example, the Company is better placed to assess debtor related risks, but will seek to hedge against currency or other risks which are outside the company's capacity to control. The Board takes steps to ensure it understands the impact of each risk and the likelihood of each occurring. The Board then makes an assessment of the best way to manage each risk based on the type of risk and an assessment of impact and likelihood.

FINANCIAL INSTRUMENTS DISCLOSURES

The Company has an overdraft facility with Allied Irish Bank Plc. A mortgage debenture exists giving the bank a floating charge over the assets of the Company as security for the overdraft and loan facilities provided to the parent company, Adam Smith Advisory Group Limited. These facilities are reviewed annually alongside the business plans and budgets for the forthcoming year.


RESULTS AND DIVIDENDS

Turnover for the year was £105.8 million (2016: £154.2 million). Profit on ordinary activities before taxation was £5.6 million (2016: £17.9m).

No dividends were paid during the year to the holding company (2016: Nil).

240 Blackfriars Road
London
SE1 8NW
United Kingdom
(registered office)

On behalf of the Board



R Slee
Acting Chair

20 September 2018
Date

Adam Smith International Limited

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report and 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business; and
- d. state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Opinion

We have audited the financial statements of Adam Smith International Limited for the year ended 31 December 2017 which comprise of Statement of Income and Retained Earnings, Statement of Financial Position and notes to the financial statements, including a summary of significant Statement of Changes in Equity and Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of the company's 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. 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.

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 year 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 our 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 this 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 the directors' report has 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 any material misstatements in the Strategic Report or the Directors' report.

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

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company's 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 6, 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://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.

RSM UK Audit Ltd

Andrew Monteith
(Senior Statutory Auditor)
For and on behalf of RSM UK AUDIT LLP, Statutory Auditor
Chartered Accountants
Marlborough House
Victoria Road South
Chelmsford
Essex
CM1 1LN
United Kingdom

26th September 2018

Adam Smith International Limited
STATEMENT OF INCOME AND RETAINED EARNINGS
for the year ended 31 December 2017

	Notes	2017	2016
		£	£
TURNOVER	2	105,770,651	154,185,386
Cost of sales		<u>(82,476,956)</u>	<u>(124,021,926)</u>
GROSS PROFIT		23,293,695	30,163,460
Other operating expenses	3	<u>(17,798,591)</u>	<u>(12,293,634)</u>
OPERATING PROFIT		5,495,104	17,869,826
Fair value gains and losses on foreign exchange contracts		(71,804)	62,768
Interest receivable and similar income	4	<u>1,969,609</u>	<u>1,180,674</u>
		7,392,909	19,113,268
Interest payable and similar charges	5	<u>(13,149)</u>	<u>(10,732)</u>
PROFIT BEFORE TAXATION	6	7,379,759	19,102,536
Taxation	8	<u>(1,595,128)</u>	<u>(3,712,781)</u>
PROFIT AFTER TAXATION AND PROFIT FOR THE FINANCIAL YEAR		<u>5,784,632</u>	<u>15,389,755</u>
RETAINED EARNINGS AS AT 1st JANUARY		62,126,436	46,736,681
Profit after taxation		5,784,632	15,389,755
RETAINED EARNINGS AS AT 31st DECEMBER		<u>67,911,068</u>	<u>62,126,436</u>

The operating profit for the year arises from the Company's continuing operations.

Adam Smith International Limited
STATEMENT OF FINANCIAL POSITION
31 December 2017

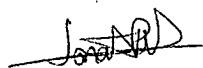
Company Registration No. 02732176

	Notes	2017 £	2016 £
FIXED ASSETS			
Intangible assets	9	512,015	277,711
Tangible assets	10	267,487	527,382
Investment in subsidiaries	11	<u>1,560,094</u>	<u>1,552,601</u>
		<u>2,339,596</u>	<u>2,357,694</u>
CURRENT ASSETS			
Debtors due within one year	12	75,587,639	77,470,896
Cash at bank and in hand	13	<u>12,631,950</u>	<u>14,992,807</u>
		<u>88,219,589</u>	<u>92,463,703</u>
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	14	<u>(22,647,592)</u>	<u>(32,694,435)</u>
NET CURRENT ASSETS		<u>65,571,998</u>	<u>59,769,268</u>
NET ASSETS		<u><u>67,911,594</u></u>	<u><u>62,126,962</u></u>
CAPITAL AND RESERVES			
Called up share capital	15	406	406
Other reserves	15	120	120
Profit and loss account	15	<u>67,911,068</u>	<u>62,126,436</u>
TOTAL EQUITY		<u><u>67,911,594</u></u>	<u><u>62,126,962</u></u>

The financial statements on pages 9 to 20 were approved by the board of directors and authorised for issue on 20 September 2018 and signed on its behalf by:



R Slee
Acting Chair



J Pell
Director

Adam Smith International Limited

ACCOUNTING POLICIES

31 December 2017

GENERAL INFORMATION

Adam Smith International Limited ("the Company") is a private company limited by shares domiciled and incorporated in England. The address of the Company's registered office and principal place of business is 240 Blackfriars Road, London, SE1 8NW. The Company's principal activities and nature of operations are set out within the Director's Report.

BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and the requirements of the Companies Act 2006, including the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The financial statements are presented in sterling which is the functional currency of the company. Monetary amounts in these financial statements are recorded to the nearest £1, except where otherwise indicated.

The financial statements have been prepared under the historical cost convention modified to include the revaluation of certain financial instruments to fair value. The principal accounting policies adopted are set out below.

GOING CONCERN

The group voluntarily withdrew from tendering for DFID contracts from 22 February 2017 to 7 February 2018 which combined with the costs associated with the restructuring and reform programme undertaken during the period led to a substantial fall in company revenues, an increase in expenses and consequently a reduction in profit. Despite this, the company still maintains a healthy pipeline of secured contract work through to the end of September 2019.

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The company has sufficient financial resources. As a consequence, the directors believe that the company is well placed to manage its business risks successfully. The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

GROUP ACCOUNTS

The accounts present information about the company as an individual undertaking and not about its group, as the company has taken advantage of the exemptions not to prepare group accounts on the grounds that Adam Smith International Limited is a wholly-owned subsidiary and its ultimate parent undertaking is preparing group accounts.

INVESTMENT IN SUBSIDIARIES

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses.

Interests in subsidiaries are assessed for impairment at each reporting date. Any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

INTANGIBLE FIXED ASSETS (OTHER THAN GOODWILL)

Intangible assets are initially recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised to profit or loss on a straight-line basis over their useful lives, as follows:

Purchased computer software 5 years

TANGIBLE FIXED ASSETS

Tangible fixed assets are initially measured at cost and subsequently measured at cost, net of depreciation and any impairment losses.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset to its estimated residual value on a straight line basis over its expected useful life, as follows:

Furniture	10 years
Office equipment	3 years
IT equipment	3 years

Residual value is calculated on prices prevailing at the reporting date, after estimated costs of disposal for the asset as if it were at the age and in the condition expected at the end of its useful life.

IMPAIRMENT OF FIXED 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 have been affected. The impairment loss is recognised in profit or loss.

Adam Smith International Limited

ACCOUNTING POLICIES (Continued)

31 December 2017

OTHER INCOME

Interest income is accrued on a time-apportioned basis, by reference to the principal outstanding at the effective interest rate.

TAXATION

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current tax is based on taxable profit for the year. Taxable profit differs from total comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Current and deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is not discounted.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Taxable losses are brought from group companies, at the appropriate tax rates paid by the relevant company.

LEASES

The annual rentals on 'operating leases' are charged to profit or loss on a straight line basis over the lease term. Rent free periods or other incentives received for entering into a lease are accounted for over the period of the lease so as to spread the benefit received over the lease term.

FOREIGN CURRENCY TRANSLATION

Transactions in currencies other than the functional currency (foreign currencies) are initially recorded at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the date of the transaction, or, if the asset or liability is measured at fair value, the rate when that fair value was determined.

All translation differences are taken to profit or loss, except to the extent that they relate to gains or losses on non-monetary items recognised in other comprehensive income, when the related translation gain or loss is also recognised in other comprehensive income.

TURNOVER

Turnover represents the value of services provided to clients net of VAT. Turnover represents fees receivable for the provision of services falling within the group's ordinary activities, and is recognised to the extent to which a contract is completed when the amounts earned are fixed or determinable and collectability is reasonably assured.

Turnover is recognised in profit or loss as contract activity progresses and entitlement to consideration is earned. The amount by which recorded turnover is in excess of payments on account and invoiced amounts is recognised in debtors as amounts recoverable on long term contracts. Payments received in excess of recorded turnover are included in creditors as payments on account. For milestone contracts, turnover is recognised based on the stage of completion which is measured by the proportion of contract costs incurred for work performed to date compared to estimated total cost of completion which is measured by the proportion of contract costs incurred for work performed to date compared to estimated total contract costs for each contract. The directors feel that this represents the most appropriate evidence of performance under the contract and right to consideration.

AGENCY ARRANGEMENTS

Projects where the Company receives and disburses funds on behalf of clients but earns no margin are treated as agency arrangements. Receipts under the terms of such contracts are excluded from turnover. Similarly, disbursements are excluded from cost of sales.

PROPOSAL COSTS

Expenditure on proposals undertaken for new contracts is recognised in profit or loss as it is incurred.

RETIREMENT BENEFITS

For defined contribution schemes the amount charged to profit or loss is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

SHARE-BASED PAYMENTS

The Company grants share options ("equity-settled share-based payments") to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of equity instruments granted using various option modelling techniques. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the estimate of the number of shares that will eventually vest. A corresponding adjustment is made to equity.

Modifications and cancellations

When the terms and conditions of equity-settled share-based payments at the time they were granted are subsequently modified, the fair value of the share-based payment under the original terms and conditions (the "original fair value") and under the modified terms and conditions (the "modified fair value") are both determined at the date of the modification. Any excess of the modified fair value over the original fair value is recognised over the remaining vesting period in addition to the grant date fair value of the original share-based payment. The share-based payment expense is not adjusted if the modified fair value is less than the original fair value. Cancellations or settlements are treated as an acceleration of vesting and the amount that would have been immediately recognised over the remaining vesting period is recognised.

FINANCIAL INSTRUMENTS

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

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.

Basic financial assets, which include trade (including accrued income) and other receivables and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Other financial assets classified as fair value through profit or loss are measured at fair value.

FINANCIAL ASSETS AT AMORTISED COST

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

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.

FINANCIAL LIABILITIES

Basic financial liabilities are initially measured at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Other financial liabilities classified as fair value through profit or loss are measured at fair value.

DERECOGNITION OF FINANCIAL LIABILITIES

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

EQUITY INTERESTS

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

DERIVATIVES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

Adam Smith International Limited

ACCOUNTING POLICIES (Continued)

31 December 2017

REDUCED DISCLOSURES

In accordance with FRS 102, The Company has taken advantage of the exemptions from disclosing the following information as permitted by the reduced disclosure regime within FRS 102:

Section 4 "Reconciliation of Equity"

Section 7 'Statement of Cash Flows' - Presentation of a Statement of Cash Flow and related notes and disclosures.

Section 11 'Basic Financial Instruments' & Section 12 'Other Financial Instrument Issues' - Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument.

Section 33 'Related Party Disclosure' - Compensation for key management personnel.

The company is consolidated into the financial statements of Adam Smith Advisory Group Limited. These accounts are publicly available and provide equivalent disclosures where required.

1 CRITICAL ACCOUNTING ESTIMATES AND AREAS OF JUDGEMENT

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Long term contracts

Profit is recognised based upon stage to completion, measured by basing costs incurred to date as a proportion of total estimated costs. There is a degree of management estimation in determining the level of total estimated costs for a project.

Share based payments

Equity-settled share-based payments are measured at fair value at the date of grant, using various option modelling techniques. There are various assumptions made within these modelling techniques as well as determining the length of the vesting period over which any calculated charge will be spread.

2 TURNOVER

An analysis of the geographical location of the company's turnover from continuing activities is as follows:

	2017	2016
	£	£
By geographical market:		
Europe & USA	11,745	4,473,539
Asia	17,282,805	22,176,414
Africa & Middle East	88,476,101	127,535,433
	<u>105,770,651</u>	<u>154,185,386</u>

All revenue is derived from Advisory services.

3 OTHER OPERATING EXPENSES

	2017	2016
	£	£
Other operating expenses	<u>17,798,591</u>	<u>12,293,634</u>

4 INTEREST RECEIVABLE AND SIMILAR INCOME

	2017	2016
	£	£
Bank interest	12,777	5,463
Other interest	<u>1,956,832</u>	<u>1,175,211</u>
	<u>1,969,609</u>	<u>1,180,674</u>

Other interest entirely relates to interest receivable from group undertakings.

5 INTEREST PAYABLE AND SIMILAR CHARGES

	2017	2016
	£	£
Other interest	<u>13,149</u>	<u>10,732</u>
	<u>13,149</u>	<u>10,732</u>

Other interest entirely relates to interest payable to group undertakings.

6 PROFIT BEFORE TAXATION

	2017	2016
	£	£
Profit before taxation is stated after charging/(crediting):		
Fair value (gains) or losses on foreign exchange contracts	71,804	(62,768)
Depreciation of tangible assets:		
Charge for the year on owned assets	209,452	315,742
Amortisation	75,919	5,172
Operating lease rentals:		
Land and buildings	897,688	1,457,135
Profit on foreign exchange transactions	(853,142)	(3,673,743)

Adam Smith International Limited
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2017

6 PROFIT BEFORE TAXATION - continued

	2017	2016
	£	£
Auditor's remuneration: *		
Statutory audit fees	53,550	49,500
Other services - Tax related services	69,369	33,385
Other services - Other	50,223	93,866

* The above disclosures are for Adam Smith International Limited as a single entity. Full disclosure of the audit and non-audit fees for all group companies are included in the group accounts of its parent undertaking, Adam Smith Advisory Group Limited.

7 EMPLOYEES

	2017	2016
	No.	No.

The average monthly number of persons (including directors remunerated by this company) employed by the Company during the year was:

Directors	7	7
Office and project management	199	178
	<u>206</u>	<u>185</u>

	2017	2016
	£	£
Staff costs for the above persons including Directors:		
Wages and salaries	10,541,708	11,673,903
Social security costs	1,075,902	1,218,648
Defined contribution pension costs	338,231	249,687
Share based payments	246,000	246,000
	<u>12,201,841</u>	<u>13,388,238</u>

Outstanding pension contributions at year-end	-	-
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DIRECTORS' REMUNERATION

Emoluments for qualifying services	847,296	894,019
Loss of office settlements	112,755	-
Company pension contributions to money purchase schemes	22,903	47,472
	<u>982,954</u>	<u>941,491</u>

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	166,095	205,268
Pension scheme contributions	1,565	7,948
	<u>167,660</u>	<u>213,216</u>

Number of directors for whom retirement benefits are accruing under money purchase pension schemes.	<u>6</u>	<u>7</u>
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8 TAXATION

	2017	2016
	£	£
Current year tax		
U.K. corporation tax:		
Current tax on profits of the year	760,788	3,278,396
Group relief payments made	696,804	562,458
Foreign taxation	-	-
Double taxation relief	-	-
Adjustment for prior years	272,805	(130,297)
Total current tax	<u>1,730,397</u>	<u>3,710,557</u>
Current tax charge is analysed as follows;		
UK tax - current year	1,457,592	3,840,854
UK tax - adjustments for prior years	272,805	(130,297)
	<u>1,730,397</u>	<u>3,710,557</u>
Deferred tax:		
Origination and reversal of timing differences	(135,269)	2,224
Total deferred tax	<u>(135,269)</u>	<u>2,224</u>
Total tax on profit on ordinary activities	<u>1,595,128</u>	<u>3,712,781</u>

Adam Smith International Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

8 TAXATION - continued

	2017 £	2016 £
Factors affecting the tax charge for the year		
The tax assessed for the year is lower than the standard rate of corporation tax in the UK (19%). The differences are explained below:		
Company profit on ordinary activities before taxation	7,379,759	19,102,536
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 19% (2016: 20%).	1,420,604	3,820,507
Effects of:		
Expenses not deductible for tax purposes	3,969	12,467
Capital allowances less than depreciation	18,322	17,526
Adjustments to tax charge in respect of previous years	272,805	(130,297)
Adjustments to deferred tax charge in respect of previous years	(147,183)	-
Group relief claimed	(696,680)	(562,458)
Payment for group relief	696,804	562,458
Other tax adjustments	26,487	(7,422)
	174,524	(107,726)
Tax expense	1,595,128	3,712,781
The future reduction in corporation tax rates will impact future tax charges.		

9 INTANGIBLE FIXED ASSETS: IT software

	2017 £
Cost	
1 January 2017	282,883
Additions	310,223
31 December 2017	593,106
Amortisation	
1 January 2017	5,172
Charge for the year	75,919
31 December 2017	81,091
Carrying amount	
31 December 2017	512,015
31 December 2016	277,711

10 TANGIBLE FIXED ASSETS

	Furniture £	Office equipment £	IT equipment £	Total £
Cost				
1 January 2017	221,878	149,414	936,595	1,307,887
Additions	-	4,134	15,518	19,651
Disposals	-	-	(70,095)	(70,095)
31 December 2017	221,878	153,548	882,018	1,257,443
Depreciation				
1 January 2017	100,372	133,150	546,983	780,505
Charge in the year	19,075	9,314	181,063	209,452
31 December 2017	119,447	142,463	728,045	989,956
Net book value				
31 December 2017	102,431	11,084	153,972	267,487
31 December 2016	121,506	16,264	389,612	527,382

11 INVESTMENTS IN SUBSIDIARIES

	2017 £	2016 £
Cost or valuation		
1 January	1,552,601	1,552,601
Additions	7,493	-
31 December	1,560,094	1,552,601

A list of group undertakings is set out in Note 23

Adam Smith International Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2017

12 DEBTORS

	2017 £	2016 £
Due within one year:		
Loans to group undertakings	49,860,750	37,461,877
Trade debtors	8,490,951	19,153,773
Amounts recoverable on long term contracts	10,159,074	8,607,777
Other debtors	755,566	885,946
Prepayments and accrued income	6,321,298	11,361,525
	<u>75,587,639</u>	<u>77,470,896</u>

13 CASH AT BANK AND IN HAND

Cash at bank and in hand includes an amount of £5,816 (2016: £7,700) deposited with banks in India. This cash cannot currently be transferred outside the country due to exchange control restrictions.

14 CREDITORS

	2017 £	2016 £
Due within one year:		
Trade creditors	3,075,153	9,610,992
Loans from group undertakings	2,481,923	1,587,719
Corporation tax	52,776	2,144,719
Other taxes and social security costs	170,090	139,480
Other creditors	3,428,468	3,674,600
Income in advance	8,965,149	9,373,783
Accruals and deferred income	4,474,033	6,163,142
	<u>22,647,592</u>	<u>32,694,435</u>

15 SHARE CAPITAL & RESERVES

	2017 £	2016 £
SHARE CAPITAL		
Allotted, issued and fully paid		
406 Ordinary shares of £1 each	<u>406</u>	<u>406</u>

The Company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the Company.

RESERVES

Reserves of the company represent the following:

Other reserves

The nominal value of shares repurchased and still held at the end of the reporting period.

Retained earnings

Cumulative profit and loss net of distributions to owners.

Adam Smith International Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

17 SHARE BASED PAYMENTS

Equity Settled share option plan

Under the group plan, share options are granted at the average price of the ultimate Parent Company's shares at the grant date. The option shall not be exercisable before the third anniversary from 6 November 2015 (the "vesting period"). If options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the group before they become entitled to exercise the share options.

	Option number
Outstanding at 1 January	10,000
Granted during the year	-
Lapsed during the year	(3,532)
Outstanding at 31 December	6,468

The weighted average fair value of options granted in the year was determined using the Black-Scholes option pricing model. The Black-Scholes model is considered to apply the most appropriate valuation method due to the relatively short contractual lives of the options and the requirement to exercise within a short period after the employee becomes entitled to the shares (the "vesting date").

The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

Non-vesting conditions and market conditions are taken into account when estimating the fair value of the option at grant date. Service conditions and non-market performance conditions are taken into account by adjusting the number of options expected to vest at each reporting date.

18 COMMITMENTS UNDER OPERATING LEASES

The total future minimum lease payments under non-cancellable operating leases for land and buildings are as follows:

	2017	2016
	£	£
Land and buildings		
Amounts due:		
Within 1 year	803,542	1,284,561
Between 2 to 5 years	2,785,980	3,374,046
After 5 years	<u>4,353,094</u>	<u>5,637,655</u>

19 RETIREMENT BENEFITS NOTE

The company operates a defined contribution pension scheme for all qualifying employees in the United Kingdom. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charges represents contributions payable by the company and amounted to £338,231 (2016: £249,687).

20 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption under FRS 102 section 33 related parties not to disclose transactions with other wholly owned group companies on the basis that group accounts are prepared. There are no other related party transactions.

21 CONTROL

The immediate parent company is The Amphion Group Limited, a company incorporated in England and Wales. The ultimate parent company is Adam Smith Advisory Limited. The registered address of Adam Smith Advisory Group Limited is 240 Blackfriars Road, London, SE1 8NW, and the group accounts are available from this address.

The ultimate controlling party is Adam Smith International Employee Ownership Trust.

22 CONTINGENT LIABILITIES

The company is party to cross guarantees securing the borrowings of other group companies. At the year end these borrowings amounted to £7,500,000 within Adam Smith Advisory Group Limited (2016: £18,500,000).

The bank has a mortgage debenture dated 6 November 2015 providing security over all the company and group company assets.

Adam Smith International Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2017

23 LIST OF GROUP UNDERTAKINGS

Name	Nature of Business	Country of Incorporation	Description of shares	Ownership		Profit/(Loss) after taxation		Capital and reserves	
				2017 %	2016 %	2017 £	2016 £	2017 £	2016 £
Adam Smith Services Limited	services	England and Wales ¹	Ordinary shares	100	100	13,646	9,163	338,779	325,136
Adam Smith International Africa Limited	development	Kenya ²	Ordinary shares	99	99	150,893	229,890	2,230,991	2,301,497
Adam Smith International India Limited ³	development	India ⁴	Ordinary shares	99	99	-	-	(3,558)	(3,558)
Adam Smith International (Australia) PTY.Ltd	development	Australia ⁵	Ordinary shares	100	100	471,249	133,856	1,083,232	630,953
Adam Smith International Mongolia Limited	development	Mongolia ⁶	Ordinary shares	100	100	138,916	(100,944)	72,513	(64,819)
Adam Smith International Turkey Limited	development	Turkey ⁷	Ordinary shares	100	100	(92,987)	(501,335)	(1,214,284)	(1,327,678)
AS Operations West Africa Limited	development	Nigeria ⁸	Ordinary shares	99	99	(219,314)	67,208	53,439	320,228
Adam Smith International Uganda Limited	development	Uganda ⁹	Ordinary shares	100	100	58,892	99,094	167,395	121,606
Adam Smith International Ghana Limited	development	Ghana ¹⁰	Ordinary shares	100	100	(1,678)	-	5,859	-
Adam Smith International South Africa (PTY) Li	development	South Africa ¹¹	Ordinary shares	100	100	(12,747)	-	(13,417)	-
Adam Smith Intl US Inc.	development	United States ¹²	Ordinary shares	100	100	(19,035)	-	(18,105)	-
Adam Smith Europe B.V.	development	Netherlands ¹³	Ordinary shares	100	100	(3,821)	-	(3,871)	-

¹ The Company holds 99% of the issued ordinary shares of Adam Smith International India Limited directly. The remaining 1% is held via its parent undertaking, The Amphion Group Limited.

² Adam Smith Services Limited's registered offices are at 240 Blackfriars Road, London, SE1 8NW, United Kingdom.

³ Adam Smith International Africa Limited's registered offices are at 2nd Floor Cavendish, 14 Riverside, Riverside Drive, Nairobi, Kenya.

⁴ Adam Smith International India Limited's registered offices are at Bharat Yuvak Bhawan, 1 Jai Singh Road, New Delhi, 110 001, India.

⁵ Adam Smith International Australia PTY Limited's registered offices are at 301/88 Foveaux Street, Surry Hills, Sydney NSW, 2010, Australia.

⁶ Adam Smith International Mongolia Limited's registered offices are at 202, Infrastructure LLC Building, Tourist Street-35, Khoroo 1, Chingeltei District, Ulaanbaatar, Mongolia.

⁷ Adam Smith International Turkey Limited's registered offices are at Kavaklik Mah, Ahmet Apaydin Cad, No: 3 Park Apt, Daire, 5 27100 Sahinbey, Turkey.

⁸ AS Operations West Africa Limited's registered offices are at 24 Buchanan Crescent, Off Aminu Kano Crescent, Wuse 2, Abuja, Nigeria.

⁹ Adam Smith International Uganda Limited's registered offices are at S&L Chambers, plot 14, Mackinnon Road, Nakasero, P. O. Box 12088, Kampala, Uganda.

¹⁰ Adam Smith International Ghana Limited's registered offices are at Secant Tower, Plot H 309, Papa Moravia, Moravia Street, Osu Re, Accra, Greater Accra, Ghana.

¹¹ Adam Smith International South Africa PTY Limited's registered offices are at 1st Floor Block G, Hatfield Gardens, 333 Grosvenor Street, Gauteng, 0127, South Africa.

¹² Adam Smith Intl US Inc.'s registered offices are at 1025 CONNECTICUT AVENUE, NW, SUITE 615, Washington, District of Columbia 20036, United States of America.

¹³ Adam Smith Europe B.V.'s registered offices are at Keizersgracht 62, 1015CS Amsterdam, Netherlands.