



# **ENDAVA (MANAGED SERVICES) LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

**COMPANY REGISTRATION NUMBER 03376509**

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**COMPANY REGISTRATION NUMBER**

**03376509**

**REGISTERED OFFICE**

**125 Old Broad Street  
LONDON  
EC2N 1AR**

**DIRECTORS**

**John Cotterell  
Mark Stuart Thurston**

**SECRETARY**

**Graham Frank Lee**

**AUDITOR**

**KPMG LLP  
15 Canada Square  
London  
E14 5GL**

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## STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 30 June 2017.

### BUSINESS REVIEW

#### FINANCIAL SUMMARY

The results of the year are set out in the Profit and Loss Account and Balance Sheet on pages 16 and 17 respectively.

Our highlights are:

- Revenue was £9,515,000 a decrease of 14% on prior year;
- Operating profit was £168,000, decreasing by 54% on prior year.
- Operating margin was 2% in FY17 (3% in FY16);
- Profit after tax was £145,000 (£225,000 in FY16), with a net profit margin of 2% (2% in FY16);
- Cash balances closed at £218,000 at 30 June 2017 as opposed to £236,000 at 30 June 2016;
- Shareholders' equity closed at £3,500,000 at 30 June 2017 as opposed to £3,335,000 at 30 June 2016.

#### OPERATIONAL REVIEW

During the year, we have continued to focus on a customer base of good quality multi-year contracts. Operating profit has reduced primarily because of the reduction in revenues and higher other operating charges.

Our service delivery is mainly performed by teams located in Central and Eastern Europe where the business continues to thrive in these locations. Local IT markets provide very talented individuals who enjoy working with international clients and building careers with Endava.

The business continues to employ a number of UK based senior team members, experienced in managing complex service delivery and change programs.

The combination of service leaders on client site with very capable service delivery teams located offshore allows for very scalable service solutions across a wide range of customers.

#### BUSINESS MODEL

The Company's business model is:

- to provide digital and agile managed IT services offerings to industry sector leading businesses;
- to establish extremely close customer relationships by making a significant impact on their business models, particularly through digital and agile transformation enablement, supported by strong technologies;

- to be an early adopter and expert in emerging technologies; we work well with customers who choose to, or have to change their technology strategy rapidly to meet marketplace changes;
- to invest in new delivery locations around the world where we can establish ourselves as the leading employer of choice in a concentration of exceptional talent;
- to sign large multi-year services contracts that deliver steady predictable future earnings;
- to further differentiate ourselves from competition with our Company culture. Career development and customer engagement is performed around the Endava Core Purpose and Endava's values.

## KEY PERFORMANCE INDICATORS

The Company uses a number of Key Performance Indicators (KPIs), both financial and non-financial, to measure performance. The KPIs are periodically reviewed, updated as the business evolves and adapted to each subsidiary profile.

The Company is managed and its performance is analysed using the following KPIs:

### 1. REVENUE GROWTH

We monitor revenue growth quarter on quarter and year on year. FY17 revenues decreased 14% on FY16 mainly due to reduction of intercompany charges (27% decrease) from the Company to other Group companies as a result of the application of the new group transfer pricing scheme. Third party revenues also decreased by 2% year on year as a result of the loss of two clients.

### 2. GROSS MARGIN

The Company generated a gross margin of 14% in FY17 (11% in FY16). The improvement in gross margin is mainly due to cost of sales reduction of 17% in FY17 as a result of the implementation of the new transfer pricing scheme across the Group.

### 3. OTHER OPERATING CHARGES AS A % OF REVENUE

The operating charges % of revenue increased from 4% in FY16 to 9% in FY17 due to an increase in operating charges by 72%, mainly consulting fees and other administrative expenses, accompanied by a 14% decrease in revenue.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

As for any company in the IT service market, the Company faces a number of principal risks and uncertainties. The overall success of the Company depends, in part, upon its ability to succeed in different operating environments and to manage and to mitigate such risks.

The Company identifies risks and implements internal procedures to mitigate and exercise control in order to comply with laws, regulations and customary practices in the country where it is trading.

The parent Company, Endava Limited, has a group risk committee which advises the board on its overall risk management strategy and risk policy. It also oversees and monitors on-going implementation.

## **OPERATIONAL RISKS**

As an IT Service provider the main risk that the Company is exposed to is a failure to be able to deliver contracted services.

### **PERFORMANCE RISKS**

The Company operates a business winning contract approval system which requires approval from all stakeholders including legal, financial and service delivery, prior to signature. The authority level required to approve a contract depends on the value and risk profile of the engagement.

IT project risk is always present and it may arise from human error, estimations, omissions or infringement of legislation or regulations. To mitigate some of this risk the Company uses a group developed tool, The Endava Adaptive Model (TEAM), to provide a unified approach to successfully building, delivering and supporting complex projects and managed services.

Contract performance is managed through consistent control and reporting procedures across the organisation in accordance with TEAM.

### **SYSTEMS FAILURE**

The Company manages a variety of environments for its delivery operations and it also hosts applications for clients on its own technical infrastructure.

A major systems failure could result in downtime and delays to projects, or unavailability of hosted applications. The Company has mitigated these risks with appropriate back-up and recovery procedures, system monitoring and early warning alerting. Wherever possible the Company has built in redundancy failure controls to its infrastructure to mitigate a single point of failure. Business continuity planning is an on-going process required to ensure that recovery procedures are adequate.

### **EMPLOYEES**

The core component of the services provided to its customers is world class technology expertise of the Company and group's employees. The inability to recruit, train or retain employees with the skills required to fulfil commercial engagements could impact the Company's performance.

The Company mitigates this risk by supporting the professional development of employees through the delivery of creative, well-designed and time-efficient training programs.

Employee retention is encouraged through the direct participation in the success of the business through the group profit sharing schemes.

#### **COUNTRY RISKS**

An increasing proportion of the Company's services are provided from our Delivery Units (DUs) in Central Europe and South America. Consequently the Company is exposed to the risks associated with economies that are undergoing rapid growth with evolving controls and regulations which can drive inflationary pressure and taxation uncertainty.

Political risk is also present in some countries and the group mitigates some of this risk through multiple delivery locations in different countries.

The group mitigates some of this risk through multiple delivery locations in different countries, and by employing people who enjoy dual nationality and who are able to travel easily.

#### **COMMUNICATIONS**

The DUs rely on telecommunication networks which could be affected by specific incidents or natural disasters. The number and spread of DUs and suppliers offers a wide range of business continuity options.

#### **CLIENTS**

The strategy of the Company is to focus on larger international blue chip clients. The parent Company monitors the distribution of revenue across clients and sectors to limit the potential financial effect of client attrition.

#### **ECONOMIC CONDITIONS**

The Company's financial performance may be adversely affected by a general downturn in the IT service sector which would be managed through cost-cutting or headcount reduction measures.

#### **LEGAL RISKS**

The activities undertaken by the Company are not regulated and do not need any regulatory authorisation, although some services provided to clients who are regulated may have contractual obligations connected to such regulations.

All draft agreements are reviewed by the legal department in line with the Company's risk framework. Where practical, risks are assessed, contained and eliminated, however elimination is often impractical. Where risk elimination is not possible, the Company will proceed on a risk aware basis.

As such the legal precautions taken by the Company to protect its activities or to ensure adherence to internal rules can only provide reasonable assurance and never an absolute guarantee against such risks.

## **REPUTATIONAL RISKS**

Media coverage of any difficulties encountered with services provided by the Company could negatively impact the Company's image and credibility and its ability to develop and maintain certain activities. The Company strives to work closely with its customers and identify any areas of discontent to enable them to be addressed in a timely fashion.

Furthermore, the Company retains the services of media professionals who advise and guide management in their dealings with the media.

## **FINANCIAL RISKS**

### **LIQUIDITY RISK**

The Company manages its liquidity by monitoring the short term cash flow needs of the business. The Company has access to group borrowing facilities in the form of a term loan and asset finance facilities to fund capital expenditure arising from headcount and premises growth.

Cash flows are monitored daily and on a monthly basis rolling forecasts are used to ensure sufficient liquidity exists within the group to settle liabilities as they fall due.

### **FOREIGN EXCHANGE RISK**

The Company is exposed to foreign exchange risk of having cash flow requirements which are not denominated in the Company's functional currency and translation risk arising on the conversion of foreign currency balances into GBP for group financial statement reporting.

The Company works closely with its corporate banking partner to hedge some of this risk using uncomplicated financial instruments and it also monitors and reviews the un-hedged risk areas on a regular basis.

### **CREDIT RISK**

The Company is exposed to credit risk where a client is engaged to pay for services and they have a short trading record or a poor credit rating.

The Company does not undertake engagements with new clients without checking their credit rating. If it is unsatisfactory, then payment terms are modified and agreed before service delivery commences. At all times the Company is prepared to walk away from business if the combined commercial risk is unacceptable.

The Company is not exposed to any significant credit risk arising from a single customer or group of customers having the same characteristics.

Trade receivables consist of a large number of customers in different sectors of the market and geographical locations. Based on historical information about customer default rates management considers the credit quality to be good.



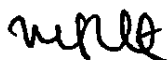
**EMPLOYMENT RISKS**

The Company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a disabled person.

Where existing employees become disabled, it is the Company's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

The Company has a whistle blowing/speak-up policy which enables employees to anonymously raise any concerns that they might have about the internal conduct or behaviour in the Company.

By order of the Board



**Mark Stuart Thurston, Director**

Date: 28<sup>th</sup> March 2018

## **DIRECTORS' REPORT**

### **DIRECTORS**

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

- John Cotterell;
- Mark Stuart Thurston.

### **PROPOSED DIVIDENDS**

No interim dividend was declared or paid in the year.

No final ordinary dividend was proposed by the Directors in respect of the current financial year.

### **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The principal activity of the Company is to provide IT services (including but not limited to software design, development, testing, consulting, support and resale, infrastructure management, hosting, website development) and to carry on all activities related to the same.

### **POLITICAL CONTRIBUTIONS**

The Company made no political donations or incurred any political expenditure during the year.

### **DISCLOSURE OF INFORMATION TO AUDITOR**

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

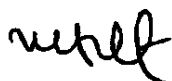
### **OTHER INFORMATION**

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 4.

**AUDITOR**

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

By order of the Board



**Mark Stuart Thurston, Director**

Date: 28<sup>th</sup> March 2018

**ENDAVA (MANAGED SERVICES) LIMITED**  
125 Old Broad Street, London, EC2N 1 AR

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 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 the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



**Mark Stuart Thurston, Director**

Date: 28<sup>th</sup> March 2018

**ENDAVA (MANAGED SERVICES) LIMITED**

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENDAVA (MANAGED SERVICES) LIMITED**

## **OPINION**

We have audited the financial statements of Endava (Managed Services) Limited ("the Company") for the year ended 30 June 2017 which comprise the Profit and Loss Account and Other Comprehensive Income Statement, Balance Sheet, Statement of Changes in Equity and related notes, including the significant accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **BASIS FOR OPINION**

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

## **GOING CONCERN**

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

## **STRATEGIC REPORT AND DIRECTORS' REPORT**

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

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

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

**ENDAVA (MANAGED SERVICES) LIMITED**

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENDAVA (MANAGED SERVICES) LIMITED (CONTINUED)**

## **MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, 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.

We have nothing to report in these respects.

## **DIRECTORS' RESPONSIBILITIES**

As explained more fully in their statement set out on page 12, the Directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view;
- such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## **AUDITORS' RESPONSIBILITIES**

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ENDAVA (MANAGED SERVICES) LIMITED (CONTINUED)**

### **THE PURPOSE OF OUR AUDIT WORK AND WHOM WE OWE OUR RESPONSIBILITIES**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

A handwritten signature in black ink, appearing to read 'Tudor Aw', written over a horizontal line.

**Tudor Aw**  
**Senior Statutory Auditor**

**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
KPMG LLP,  
15 Canada Square,  
Canary Wharf London  
E14 5GL  
United Kingdom  
28<sup>th</sup> March 2018

## FINANCIAL STATEMENTS AND NOTES

### PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME

	NOTE	2017 £'000	2016 £'000
TURNOVER	3	9,515	11,011
Cost of sales		(8,138)	(9,750)
GROSS PROFIT		1,377	1,261
Other operating charges		(841)	(490)
Share options charge		(20)	-
EBITDA <sup>1</sup>		516	771
Depreciation, amortisation and impairment of non-financial assets	10 11	(348)	(409)
OPERATING PROFIT	4	168	362
Finance costs	6	(18)	(21)
Finance income	7	24	-
PROFIT BEFORE TAX		174	341
Tax on profit on ordinary activities	8	(29)	(116)
PROFIT FOR THE YEAR		145	225
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		145	225

The notes on pages 19 to 36 form an integral part of these financial statements.

Following a review of the underlying nature of certain of our People and Organisation activities and IT support, we have reclassified these from Cost of Sales to Other Operating Charges. Similarly unrealised gains or losses on balance sheet accounts due to foreign exchange movements have been reclassified to financing costs as these costs are not operational in nature. Both changes were made from 1 July 2016 and the comparative period has been adjusted accordingly. See Note 2 for further details of these reclassifications.

ENDAVA (MANAGED SERVICES) LIMITED



## BALANCE SHEET AT 30 JUNE 2017

	NOTE	2017 £'000	2016 £'000
<b>FIXED ASSETS</b>			
Intangible assets	11	35	-
Tangible assets	10	696	766
Deferred tax asset	9	47	-
<b>TOTAL</b>		<b>778</b>	<b>766</b>
<b>CURRENT ASSETS</b>			
Debtors	13	11,697	12,747
Cash at bank and in hand	12	218	236
<b>TOTAL</b>		<b>11,915</b>	<b>12,983</b>
<b>TOTAL ASSETS</b>		<b>12,693</b>	<b>13,749</b>
<b>CURRENT LIABILITIES</b>			
Creditors: amounts falling due within one year	14	9,193	10,376
<b>TOTAL</b>		<b>9,193</b>	<b>10,376</b>
<b>NON-CURRENT LIABILITIES</b>			
Creditors: amounts falling due after more than one year	15	-	38
<b>TOTAL</b>		<b>-</b>	<b>38</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital <sup>2</sup>	18	-	-
Profit and loss account		3,500	3,335
<b>SHAREHOLDERS' FUNDS</b>		<b>3,500</b>	<b>3,335</b>

These financial statements were approved by the Board and authorised for issue 28<sup>th</sup> March 2018 and are signed on their behalf by:



**Mark Stuart Thurston, Director**

The notes on pages 19 to 36 form an integral part of these financial statements.

<sup>2</sup> Called up share capital value is £100 (2016: £100).

## STATEMENT OF CHANGES IN EQUITY

	<div> <div> CALLED UP SHARE CAPITAL </div> <div>£ 000</div> </div>	<div> <div>PROFIT AND LOSS ACCOUNT</div> <div>£ 000</div> </div>	<div> <div>TOTAL</div> <div>£ 000</div> </div>
BALANCE AT 30 JUNE 2015	-	5,110	5,110
Dividends – Note 16	-	(2,000)	(2,000)
Profit for the year	-	225	225
BALANCE AT 30 JUNE 2016	-	3,335	3,335
Employee share based payment	-	20	20
Profit for the year	-	145	145
BALANCE AT 30 JUNE 2017	-	3,500	3,500

The notes on pages 19 to 36 form an integral part of these financial statements.

<sup>3</sup> Called up share capital value is £100 (2016: £100).

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. GENERAL INFORMATION**

#### **REPORTING ENTITY**

Endava (Managed Services) Limited ("the Company") is a company domiciled in London, United Kingdom. The address of the Company's registered office is 125 Old Broad Street, London, EC2N 1 AR. The Company is a limited liability company incorporated in accordance with the laws applicable in the United Kingdom under registration number 03376509. The principal activity of the Company is to provide IT services (including but not limited to software design, development, testing, consulting, support and resale, infrastructure management, hosting, support and resale, website development, hosting and support) and to carry on all activities in relation to the same.

#### **OWNERSHIP OF THE COMPANY**

The Company is a wholly owned subsidiary of Endava Limited. The Parent is the immediate and controlling party of the Company. The Company's financial statements are consolidated within the parent company who is the largest group. The Parent's registered office is 125 Old Broad St, London EC2N 1AR, United Kingdom.

Endava Limited is the ultimate parent company and controlling party. Endava Limited is the parent undertaking of the largest and smallest group for which group accounts are drawn.

#### **APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were authorised for issue by the board of directors on 28<sup>th</sup> March 2018.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### **1. STATEMENT OF COMPLIANCE**

The financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

#### **2. BASIS OF ACCOUNTING**

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but make amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of FRS 101 disclosure exemptions have been taken.

The Company's ultimate parent undertaking, Endava Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Endava Limited are prepared in accordance with International Financial Reporting Standards and are available

## **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

to the public and may be obtained from the registered office at 125 Old Broad Street, London, EC2N 1 AR.

As permitted by FRS 101, the Company has taken advantage of the following disclosure exemptions for the year ended 30 June 2017:

- Cash flow statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy or the reclassification of items in the financial statements;
- Disclosures in respect of capital management;
- Disclosures in respect of the compensation of key management personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the Company.

As the consolidated financial statements of Endava Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The financial statements have been prepared on the going concern basis and under the historical cost convention.

Following a review of the underlying nature of certain of our People and Organisation activities and IT support, we have reclassified these from Cost of Sales to Other Operating Charges. Similarly, unrealised gains or losses on balance sheet accounts due to foreign exchange movements have been reclassified to financing costs as these costs are not operational in nature. Both changes were made from 1 July 2016 and the comparative period has been adjusted accordingly.

Impact of the reclassifications is detailed below:

	2016 £'000
<b>Cost of sales – as reported in FY 16</b>	<b>(10,132)</b>
<b>People and Organisation activities and IT support</b>	<b>382</b>
<b>Cost of sales – as reported in FY 17</b>	<b>(9,750)</b>

## SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

<b>Other operating charges – as reported in FY 16</b>	<b>(120)</b>
People and Organisation activities and IT support	(382)
Foreign exchange differences	12
<b>Other operating charges – as reported in FY 17</b>	<b>(490)</b>

### 3. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Sterling ("GBP"), which is the Company's functional currency. The Directors of the Company believe that the GBP most accurately represents the economic benefits of the underlying transactions, events and conditions.

All financial information presented in GBP has been rounded to the nearest thousand, except when otherwise indicated.

### 4. USE OF ESTIMATES AND JUDGMENTS

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The following are significant management judgments and estimates in applying the accounting policies of the Company that have the most significant effect on the financial statements.

#### (i) Recognition of service contract revenues

Recognising contract revenue requires significant judgments in determining milestones, actual work performed and the estimated costs to complete the work.

Recognised amounts of contract revenues and related receivables reflect management's best estimate of each contract's outcome and stage of completion. This includes the assessment of the profitability of on-going contracts. For more complex contracts in particular, costs to complete and contract profitability are subject to significant estimation uncertainty.

#### (ii) Impairment

In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows using an appropriate discount rate. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

## **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **(iii) Useful lives of depreciable assets**

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and IT equipment.

### **(iv) Fair value of financial instruments**

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

### **(v) Provisions**

The Company measures provisions at management's best estimate of the amount required to settle the obligation at the balance sheet date, discounted where the time value of money is considered material. These estimates take account of available information, historical experience and the likelihood of different possible outcomes. Both the amount and the maturity of these liabilities could be different from those estimated.

## **5. CHANGES IN ACCOUNTING POLICIES**

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting its financial statements.

The Company shall change an already adopted and applied accounting policy only if the change:

- Is required by an accounting standard; or
- Results in the financial statements providing reliable and more relevant information about effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

A change in accounting policy is accounted for retrospectively, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

## **6. GOING CONCERN**

The financial position of the Company, its cash flows and its liquidity position are described in the financial risk management objectives and policies section of the report of the Directors.

The Directors have reviewed the Company's business plan and forecasts for a period at least 12 months from the signing of these financial statements and have discussed and evaluated relationships with key suppliers and customers.

As a result the Directors believe that the Company has adequate resources to continue operations for the foreseeable future, being at least 12 months from the signing of these

## **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

financial statements, and accordingly continue to adopt the going concern basis in preparing the financial statements.

### **7. FOREIGN CURRENCY**

Foreign currency transactions are translated into the functional currency of the Company, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

### **8. FINANCIAL INSTRUMENTS**

#### **(i) Recognition, initial measurement and de-recognition**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

#### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

#### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss ("FVTPL") include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

## SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

### (ii) Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

### (iii) Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

## 9. TANGIBLE ASSETS

### (i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

The cost of an item of property, plant and equipment comprises:

- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired



## **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between net proceeds from disposal and the carrying amount of the item) is recognised in profit and loss.

### **(II) Subsequent costs**

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

### **(III) Depreciation**

Items of property, plant and equipment are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component. Leased assets are depreciated over the shorter of the leased term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the leased term. Land is not depreciated.

Items of property, plant and equipment are depreciated from the date they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Computers and equipment	3 years
Fixtures and fittings	5 years

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

## **10. INTANGIBLE ASSETS AND GOODWILL**

### **(I) Goodwill**

Positive purchased goodwill arising on acquisitions is capitalised and classified as an asset on the balance sheet. Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently as at each financial year end.

### **(II) Research and development**

All research expenditure, undertaken with the prospect of gaining new technical knowledge, is charged to profit and loss in the year incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Costs that are directly attributable to a project's

## SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

development phase are recognised as intangible assets, provided they meet the following recognition requirements:

- the development costs can be measured reliably;
- the project is technically and commercially feasible;
- the Company intends to and has sufficient resources to complete the project;
- the Company has the ability to use or sell the software; and
- the software will generate probable future economic benefits.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Capitalized development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

### (iii) Other intangible assets

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Other intangible assets that are acquired by the Company in a business combination and have finite useful lives are measured at fair value at acquisition date less accumulated amortisation and accumulated impairment losses.

### (iv) Subsequent expenditure

Subsequent expenditure is only capitalized when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit and loss as incurred.

### (v) Amortisation

Except for goodwill, intangible assets are amortised on a straight-line basis in the profit and loss over their estimated useful lives, from the date they are available for use.

Computer software	3 – 10 years
Licences	Shorter of licence period and up to 3 years

## 11. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

### Provisions

Provisions for legal disputes, onerous contracts or other claims are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present

## **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

values, where the time value of money is material. The unwinding of the discount is recognised as a finance cost.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

### **Contingent liabilities**

The Company will recognise a contingent liability in the following cases:

- Incurs a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or
- Incurs a present obligation that arises from past events, but is not recognised because:
  - It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - The amount of the obligation cannot be measured with sufficient reliability.

The Company should not recognise a contingent liability. An entity should disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

### **Contingent assets**

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

The Company should not recognise a contingent asset. A contingent asset should be disclosed when an inflow of economic benefits is probable. When the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

## **12. REVENUE**

The Company generates revenue primarily from the provision of software development, testing, application management, hosting, cloud and outsourcing services. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. Revenue recognition is done in accordance with IAS 18 "Revenue".

The Company's services are performed under both time-and-material (where materials costs consist of travel and out-of-pocket expenses) and fixed-price contracts.

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Fixed price contracts**

The Company recognises revenues from fixed-price contracts based on the percentage of completion method. Under this method, revenue is recognised in the accounting periods in which services are rendered. In instances where final acceptance of the product, system or solution is specified by the client, revenues are deferred until all acceptance criteria have been met. In absence of a sufficient basis to measure progress towards completion, revenues are recognised upon receipt of final acceptance from the client. The cumulative impact of any revision in estimates is reflected in the financial reporting period in which the change in estimate becomes known.

**Time and material contracts**

The revenues generated under time-and-material contracts are recognised as services are performed with the corresponding cost of providing those services reflected as cost of revenues when incurred. The majority of such revenues are billed on an hourly, daily or monthly basis whereby actual time is charged directly to the client.

**Sale of goods**

Revenue from sale of hardware is recognised immediately as the sale is complete and risks and rewards of ownership of the goods are transferred to the buyer.

**Managed service contracts**

Managed services include managing clients' IT environments / infrastructure, including desktop support, hosting and cloud services. Revenue is recognised over the period services are provided which is typically straight line for managed service and hosting contracts. Where there is variable pricing and this is at fair value then revenue is recognised in the period the related service is provided. On these types of contracts revenue is often billed in advance and deferred over the relevant period. Extra services for change requests enhancements of environments may be offered, where revenue is recognised as the extra services are delivered to the clients.

**13. INCOME TAXES**

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

**14. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

**15. SHARE CAPITAL**

Share capital represents the nominal value of shares that have been issued.

**ENDAVA (MANAGED SERVICES) LIMITED**

**SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****16. SUBSEQUENT EVENTS**

Events between the reporting date and the date the financial statements are approved, favourable and unfavourable, providing evidence of conditions that existed at the reporting date, adjust the amounts recognised in the financial statements. Those that indicate conditions arising after the reporting date are disclosed but are not recognised within the financial statements.

### 3. TURNOVER

Turnover recognised in the Profit and Loss account is analysed into the following geography split, based on where the service is being delivered to:

	2017 £'000	2016 £'000
UK	9,515	11,011
TOTAL	9,515	11,011

The revenue arises from IT services provided to third parties and intercompany. Revenue of £5,855,000 (2016: £5,996,000) was generated through IT services provided to third parties.

### 4. OPERATING PROFIT

	2017 £'000	2016 £'000
OPERATING PROFIT IS STATED AFTER CHARGING/(CREDITING):		
Depreciation of tangible fixed assets	345	348
Depreciation of assets held under finance leases	-	75
Amortisation of intangible assets	3	-
Impairment of fixed assets	-	(14)
Foreign exchange differences	(23)	12
OPERATING LEASE COSTS:		
Land and buildings	53	58

#### AUDITOR'S REMUNERATION:

The Company paid the following amounts to its auditors in respect of the audit of the historical financial information:

Audit of the financial statements	8	6
TOTAL AUDIT FEES	8	6

## 5. PARTICULARS OF EMPLOYEES

THE AVERAGE NUMBER OF STAFF EMPLOYED BY THE COMPANY DURING THE FINANCIAL YEAR AMOUNTED TO:

	2017	2016
Number of operational staff	99	114
TOTAL	99	114

THE AGGREGATE PAYROLL COSTS OF THE ABOVE WERE:

	2017 £'000	2016 £'000
Wages and salaries	5,303	6,654
Social security costs	578	654
Other pension costs	232	248
TOTAL	6,113	7,554

## 6. FINANCE COSTS

	2017 £'000	2016 £'000
Interest payable on bank borrowings	-	9
Interest payable on leases	5	-
Other interest expense	13	-
Foreign exchange differences	-	12
TOTAL	18	21

## 7. FINANCE INCOME

	2017 £'000	2016 £'000
Other interest income	1	-
Foreign exchange differences	23	-
TOTAL	24	-

## 8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2017 £'000	2016 £'000
<b>ANALYSIS OF CHARGE / (CREDIT) IN THE YEAR</b>		
UK Corporation tax based on the results for the year at 19.75% (2016: 20.0%)	66	43
Adjustments in respect of prior periods	10	48
<b>CURRENT TAX</b>	<b>76</b>	<b>91</b>
Origination and reversal of temporary differences	(25)	25
Reduction in tax rate	-	-
Adjustments in respect of prior periods	(22)	-
<b>DEFERRED TAX (NOTE 9)</b>	<b>(47)</b>	<b>25</b>
<b>TAX ON PROFIT ON ORDINARY ACTIVITIES</b>	<b>29</b>	<b>116</b>

### RECONCILIATION OF THE TAX RATE ON COMPANY PROFITS

Reductions in the UK corporation tax rate from 20% to 19% (effective 1 April 2017) and 19% to 18% (effective 1 April 2020) were substantively enacted on 26 October 2016. The deferred tax balances at 30 June 2017 have been calculated on these rates. An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly and reduce the deferred tax asset.

	2017 £'000	2016 £'000
<b>Profit on ordinary activities before taxation</b>	<b>174</b>	<b>341</b>
Profit on ordinary activities by rate of tax 19.75% (2016: 20%)	34	68
Other timing differences	5	-
Adjustments to tax charge in respect of prior periods	(12)	48
Change in tax rates	2	-
<b>TOTAL TAX</b>	<b>29</b>	<b>116</b>



**9. DEFERRED TAX**

	2016	RECOGNISED IN PROFIT AND LOSS	2017
	£'000	£'000	£'000
Accelerated capital allowances	-	47	47
<b>TOTAL</b>	-		<b>47</b>
Deferred tax asset – non current	-	-	-
<b>DEFERRED TAX POSITION</b>	-	<b>47</b>	<b>47</b>

**10. TANGIBLE ASSETS**

	FIXTURES & FITTINGS	COMPUTER EQUIPMENT & SOFTWARE	TOTAL
	£'000	£'000	£'000
<b>Cost</b>			
AT 01 JULY 2016	26	3,718	3,744
Additions	32	243	275
AT 30 JUNE 2017	58	3,961	4,019
<b>Depreciation</b>			
AT 01 JULY 2016	26	2,952	2,978
Charge for the year	31	314	345
AT 30 JUNE 2017	57	3,266	3,323
<b>Net book value</b>			
AT 30 JUNE 2016	-	766	766
AT 30 JUNE 2017	1	695	696

## 11. INTANGIBLE ASSETS

	SOFTWARE AND LICENSES	TOTAL
	£'000	£'000
<b>Cost</b>		
AT 01 JULY 2016	-	-
Additions	38	38
AT 30 JUNE 2017	38	38
<b>Amortisation</b>		
AT 01 JULY 2016	-	-
Charge for the year	3	3
AT 30 JUNE 2017	3	3
<b>Net book value</b>		
AT 30 JUNE 2016	-	-
AT 30 JUNE 2017	35	35

## 12. CASH AT BANK AND IN HAND

Cash at bank and in hand consists of the following:

	2017 £'000	2016 £'000
GBP	87	178
EUR	88	56
USD	43	2
<b>TOTAL</b>	<b>218</b>	<b>236</b>

### 13. DEBTORS

	2017 £'000	2016 £'000
Trade receivables	1,830	1,060
Amounts owed by group undertakings	8,881	10,880
Other debtors	57	144
Prepayments	297	431
Corporation tax receivable	52	21
Accrued income	580	211
<b>TOTAL</b>	<b>11,697</b>	<b>12,747</b>

### 14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £'000	2016 £'000
Trade payables	280	136
Borrowings – finance leases	38	394
Amounts owed to group undertakings	7,723	7,633
Other taxation and social security	154	184
Other liabilities	38	1
Accruals	535	1,143
Deferred income	425	885
<b>TOTAL TRADE AND OTHER PAYABLES</b>	<b>9,193</b>	<b>10,376</b>

### 15. BORROWINGS – FINANCE LEASES

	2017 £'000	2016 £'000
Amounts payable within 1 year	38	394
Amounts payable 2 to 5 years	-	38
<b>TOTAL</b>	<b>38</b>	<b>432</b>

**16. DISTRIBUTIONS MADE**

	2017 £'000	2016 £'000
Dividends paid on equity capital	-	2,000

**17. COMMITMENTS UNDER OPERATING LEASES**

	2017 £'000	2016 £'000
Operating leases which expire:		
Amounts payable within 1 year	13	52
Amounts payable 2 to 5 years	-	65
<b>TOTAL</b>	<b>13</b>	<b>117</b>

**18. CALLED UP SHARE CAPITAL**

	NO.	2017 £'000	NO.	2016 £'000
<b>ALLOTTED, CALLED UP AND FULLY PAID:</b>				
Ordinary shares of £1 each	100	-	100	-
<b>TOTAL</b>	<b>100</b>	<b>-</b>	<b>100</b>	<b>-</b>

**19. RELATED PARTIES**

At 30 June 2017 the Company held interests in the share capital of the below entities:

Subsidiary	Country of incorporation	Class of shares held	Percentage of shares held	Principal activity
Endava (US) LLC	US	Ordinary	100%	Provision of IT services

**20. SUBSEQUENT EVENTS**

There were no significant subsequent events from the end of the year until the date of signing of this report that would require an adjustment to or disclosure in the financial statements. The Directors expect the current level of business activity to continue in the future.