

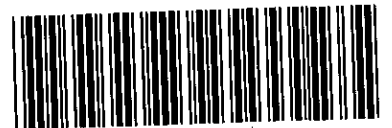
Source Eight Limited

Annual report and financial statements

Registered number 05004767

31 March 2020

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Company information

Directors

S C Kirkpatrick
P J G Dickinson
S J C Venn

Secretary

Mitie Company Secretarial Services Limited

Registered office

Level 12
The Shard
32 London Bridge Street
London
SE1 9SG

Directors' report

The Directors present the annual report and unaudited financial statements of Source Eight Limited (the "Company") for the year ended 31 March 2020.

The Company is part of the Mitie group of companies (the "Group"), the ultimate parent company being Mitie Group plc.

Strategic report

The Directors have taken advantage of the exemption provided by section 414B of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 from preparing a strategic report.

Review of the business

The principal activity of the Company is to provide strategic advice and delivery services to clients, to assist them in the implementation and management of their real estate, technology, and risk management infrastructure. There have not been any significant changes in the Company's principal activities in the year under review.

As shown in the profit and loss account on page 6, the Company's turnover was £4,759,000 (2019: £6,059,000) and the loss for the year was £461,000 (2019: £192,000).

Going concern

The Company's business activities have been described above. The financial statements have been prepared on a going concern basis. See Note 1c.

Directors

The Directors who held office during the year and up to the date of signing the financial statements were:

Director	Date of appointment	Date of resignation
S C Kirkpatrick	30/01/2020	
P J G Dickinson		
M Idle		29/01/2020
S J C Venn		

Directors' indemnity

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of certain of the Company's Directors listed above in respect of liabilities incurred as a result of their office to the extent permitted by law.

Dividends

No dividend was declared or paid in the year (2019: £nil).

Principal risks and uncertainties

The Company is part of the Mitie Group and manages its risks within the Mitie Group Risk Framework. Details of the principal risks and uncertainties are given in the Mitie Group plc annual report and accounts 2020. The Directors have reviewed the financial risk management objectives and policies of the Company in light of the Group Risk Framework. The Directors do not believe there to be any significant risks other than those detailed below.

The key risks are as follows.

Strategic risks

COVID-19

The COVID-19 pandemic has had an unprecedented impact on businesses and economic activity across the world. Almost every business has seen uncertainty in revenues, supplies and employee availability. Failure to monitor, respond to and plan for the ongoing and any future impacts of the COVID-19 pandemic, in particular the effect on employees, customers and the supply chain, could result in severe consequences for the financial health and reputation of the Company's business.

Directors' report *(continued)*

The Company has implemented a process of assessing the impact of the crisis, including the government imposed lockdown measures, seeking to establish new ways of working through the first phase and then starting to look at longer term plans once the UK lockdown starts to ease and business activity returns to more normal levels. To manage the risk, crisis management and business continuity plans have been initiated, government support schemes are being utilised and working groups have been established at the Mitie Group level to monitor ongoing impacts and to direct actions.

Impact of the UK leaving the European Union ("Brexit")

The lack of clarity of the impact of Brexit on the UK may adversely affect our ability to plan and invest, as well as the availability of labour and materials.

The impact of Brexit may also influence the decisions taken by both public and private sector clients on which activities should be outsourced and the amount of discretionary spend available for outsourcing activities. This may result in fewer opportunities for the Company and have a consequential negative impact on our financial performance.

Controls and mitigation plans have been put in place by the Group to mitigate such risks. These controls include, but are not limited to, having:

- a dedicated Chief Government and Strategy Officer and team;
- dedicated account managers to focus on growing integrated strategic accounts;
- a drive for greater customer retention and higher Net Promoter Scores through improvements in customer service;
- regular reviews of sales opportunities by all business sales leaders.

In conjunction with the above, it is important that we are able to offer competitive, innovative and high-quality solutions to clients, and demonstrate the value we bring to them. We also need to ensure we carefully monitor and identify the most appropriate opportunities in both the public and private sectors.

Financial risks

Reliance on material counterparties

The Company depends on significant counterparties including clients, suppliers, banks and insurers, to maintain its business. The failure of a key business partner could affect the business. This risk is mitigated by limiting the dependency on any one partner.

Operational risks

Significant health, safety or environmental incidents

The potential to cause harm to employees, clients, or to damage the environment, exists and is mitigated by an extensive Quality, Health, Safety and Environmental programme that is closely monitored.

System, process or control failure

Increased reliance on business systems necessitates a robust governance framework and set of processes. Failure of the framework could impact on operational performance. The Group's core policies provide the basis of the governance framework. These are subject to reviews which underpin the mitigation activity for this risk. These reviews are carried out alongside regular, formal, documented testing of business-critical systems.

Financial risk management

The Company does not enter into any hedging instruments, or any financial instruments for speculative purposes.

Appropriate trade terms are negotiated with suppliers and customers. Management reviews these terms and the relationships with suppliers and customers and manages any exposure on normal trade terms. The Company prepares regular forecasts of cash flow and liquidity and any requirement for additional funding is managed as part of the overall Mitie Group plc financing arrangements.

Directors' report *(continued)*

COVID-19 and current trading

In line with the Group approach, the Company established three overriding priorities to guide its response to the COVID-19 crisis: protecting the health and safety of colleagues, customers, other business partners and the communities that it serves; ensuring that its business is able to continue to operate with minimal disruption; and to deliver the essential services it provides to its customers.

The COVID-19 pandemic has had limited impact on the Company's performance.

Environment

The Group endeavours to identify, monitor and manage the impact of their activities on the environment and is fully committed to environmental accountability and protection. The Company operates in accordance with Group policies which are described in the Group's annual report which does not form part of this report.

Political contributions

The Company made no political donations nor incurred any political expenditure during the year (2019: £nil).

Future developments

The Directors anticipate a continued decline in trading levels of the Company. The Company will deliver, in full, any existing contractual obligations to its clients, however no new business will be pursued through this Company.

Post balance sheet events

Subsequent events have been disclosed in Note 15.

On behalf of the Board:

DocuSigned by:

7C53DEA07E394E2
S C Kirkpatrick
Director

Level 12
The Shard
32 London Bridge Street
London
SE1 9SG

26 March 2021

Statement of Directors' responsibilities in respect of the Annual report and financial statements

The Directors are responsible for preparing 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 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.

Source Eight Limited
Annual report and financial statements
31 March 2020

Profit and loss account

	<i>Note</i>	2020 £000	2019 £000
Turnover	2	4,759	6,059
Cost of sales		(3,350)	(4,491)
		<hr/>	<hr/>
Gross profit		1,409	1,568
Administrative expenses		(1,448)	(1,491)
Other items		(400)	-
		<hr/>	<hr/>
Operating (loss)/profit	3	(439)	77
Interest receivable and similar income	6	9	38
Interest payable and similar expenses	7	(125)	(127)
		<hr/>	<hr/>
Loss before tax		(555)	(12)
Tax	8	94	(180)
		<hr/>	<hr/>
Loss for the year		(461)	(192)
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 9 to 21 form an integral part of the financial statements.

The results for the year are wholly attributable to the continuing operations of the Company.

There were no items of other comprehensive income recognised during the current or prior year. Accordingly, no statement of comprehensive income has been prepared.

Balance sheet

	Note	2020 £000	2019 £000
Non-current assets			
Investments in subsidiaries	9	16	16
Deferred tax assets	12	20	32
Total non-current assets		36	48
Current assets			
Debtors	10	1,801	2,974
Cash at bank and in hand		1,399	1,198
Total current assets		3,200	4,172
Current liabilities			
Creditors	11	(4,206)	(4,765)
Deferred income		(15)	(5)
Total current liabilities		(4,221)	(4,770)
Net current liabilities		(1,021)	(598)
Net liabilities		(985)	(550)
Capital and reserves			
Called up share capital	13	20	20
Other reserves	13	-	5,577
Profit and loss account	13	(1,005)	(6,147)
Shareholders' deficit		(985)	(550)

The notes on pages 9 to 21 form an integral part of the financial statements.

For the year ended 31 March 2020 the Company was entitled to exemption from audit under Section 479A of the Companies Act 2006 relating to subsidiary companies. The members have not required the Company to obtain an audit of its accounts for the year ended 31 March 2020 in accordance with section 476 of the Companies Act 2006. The Directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of accounts.

The financial statements of Source Eight Limited, company number 05004767, were approved by the Board of Directors and authorised for issue on 26 March 2021 and were signed on its behalf by:

DocuSigned by:

 7C53DEA07E394E2
S C Kirkpatrick
 Director

Statement of changes in equity

	Called up share capital £000	Other reserves £000	Profit and loss account £000	Total equity £000
Adjusted balance at 1 April 2018	20	5,652	(5,955)	(283)
Loss for the year	-	-	(192)	(192)
Total comprehensive expense	-	-	(192)	(192)
Share-based payments	-	(38)	-	(38)
Other movements	-	(37)	-	(37)
At 31 March 2019	20	5,577	(6,147)	(550)
At 1 April 2019	20	5,577	(6,147)	(550)
Loss for the year	-	-	(461)	(461)
Total comprehensive expense	-	-	(461)	(461)
Transfer	-	(5,577)	5,577	-
Share-based payments	-	-	26	26
At 31 March 2020	20	-	(1,005)	(985)

The notes on pages 9 to 21 form an integral part of the financial statements.

Notes

1 Accounting policies, judgements and estimates

a) General information

Source Eight Limited (the "Company") is a private company limited by shares and is incorporated in England and Wales and domiciled in the UK. Details of the Company's activities are set out in the Directors' report.

The Company is exempt, by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group. The Company's ultimate parent undertaking, Mitie Group plc includes the Company in its consolidated financial statements. The consolidated financial statements of Mitie Group plc, which are prepared in accordance with International Financial Reporting Standards, are available to the public and may be obtained from www.mitie.com.

b) Statement of compliance with FRS 101

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

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 makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

c) Basis of preparation

Going concern

The financial statements have been prepared on a going concern basis. The Company participates in the Group's centralised treasury arrangements and shares banking arrangements with Mitie Group plc, its ultimate parent, and with fellow subsidiaries. The Directors have received a letter of support from the directors of Mitie Group plc to confirm provision of adequate financial resources to the Company for a period of not less than twelve months from the date of approval of the Company's statutory financial statements for the year ended 31 March 2020 to ensure that the Company can meet its liabilities as they fall due.

On 30 November 2020, Mitie Group plc and its subsidiaries (the "Group") announced the completion of the acquisition of Interservefm (Holdings) Limited. The going concern assessment has therefore been performed by the directors of Mitie Group plc for the combined entity.

In adopting the going concern basis, the directors of Mitie Group plc have considered the Group's business activities as set out in the 2020 Annual Report and Accounts (pages 11 to 44) and the principal risks and uncertainties (pages 77 to 91). The directors of Mitie Group plc consider the principal risks and uncertainties to be largely unchanged, as the impact of Covid 19 had already been considered at that point.

The directors of Mitie Group plc have carried out an assessment on the Group's ability to continue as a going concern for the period of at least 12 months from the date of approval of the financial statements. This assessment has involved the review of medium-term cash forecasts based on the Group's Five Year Cash Flow model (the "Base Case"), which includes the ongoing impact of COVID-19 on each of the Group's operations. These base case projections indicate that the debt facilities currently in place are adequate to support the Group over the going concern assessment period.

The Group's principal debt financing arrangements are a £250m revolving credit facility, which expires on 16 December 2022, and £151.5m of US private placement notes (being the repayment amount based on the original dollar exchange rates when issued), of which £121.5m are repayable in December 2022 and the remaining £30.0m in December 2024. These financing arrangements are subject to certain financial covenants which are tested every six months on a rolling 12-month basis as at the September and December reporting dates. Mitie currently operates within the terms of its agreements with its lenders. The Base Case model indicates that the Group will continue to operate within these terms and that the headroom provided by the Group's strong cash position and the debt facilities currently in place is adequate to support the Group over the going concern assessment period.

The directors of Mitie Group plc have also completed reverse stress tests against the Group cash flow model to assess the point at which the covenants, or facility headroom, would be breached. The sensitivities considered have been chosen after considering both the Group's principal risks and uncertainties and the Viability Statement, included in Mitie's 2020 Annual Report and Accounts.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

c) Basis of preparation (continued)

Going concern (continued)

The primary financial risks from adverse changes in the economic environment and / or a deterioration in commercial or operational conditions are listed below. These risks have been considered specifically in the context of the potential impact of Covid 19:

- A downturn in revenues: this reflects the risks of not being able to deliver services to existing customers, or contracts being terminated or not renewed;
- A deterioration of gross margin: this reflects the risks of contracts being renegotiated at lower margins, or planned cost savings not being delivered;
- Lack of planned overhead savings: this reflects the risks of planned overhead cost savings, including the integration synergies identified, not being delivered;
- Downturn in cash generation: this reflects the risks of customers delaying payments due to liquidity constraints, or the removal of ancillary debt facilities; and
- Changes to the Group's financing arrangements.

As a result of completing this assessment, the directors of Mitie Group plc considered the likelihood of the reverse stress scenarios arising to be remote. In reaching the conclusion of remote, the directors of Mitie Group plc considered the following:

- Reviewing how the group has traded since the impact of COVID-19 started, up to the end of February 2021.
- In the event that results started to trend significantly below those included in the Group cash flow model, additional mitigation actions have been identified that would be implemented, which are not factored into the reverse stress test scenarios. These include cancellation of discretionary bonuses and reduced discretionary spend, including capital investments.

Based on these assessments, the directors of Mitie Group plc have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of no less than 12 months from the date of approval of these financial statements. In addition, in respect of material uncertainty, the directors of Mitie Group plc consider that this is remote.

Based on this assessment, and their enquiries of the directors of Mitie Group plc, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of no less than twelve months from the date of approval of the Company's financial statements for the year ended 31 March 2020. Accordingly, the financial statements have been prepared on a going concern basis.

FRS 101 exemptions

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a cash flow statement and related notes;
- comparative period reconciliations for share capital;
- the statement of compliance with Adopted IFRSs
- certain disclosures required by IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15");
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of Key Management Personnel; and
- disclosure in respect of related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

As the consolidated financial statements of Mitie Group plc 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 Payment* 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 Instruments: Disclosures*.

Accounting standards that are newly effective in the current year

There are no new and mandatorily effective standards in the year that would have a material impact on the financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

c) Basis of preparation (continued)

Other items

In the financial statements, the Company has elected to provide some further disclosures and performance measures, reported as 'Other items', in order to present its financial results in a way that demonstrates the performance of continuing operations.

Other items are items of financial performance which management believes should be separately identified on the face of the profit and loss account to assist in understanding the underlying financial performance achieved by the Company. The Company separately reports items such as cost of restructuring programmes and other exceptional items as Other items. Should these items be reversed, disclosure of this would also be as Other items.

Separate presentation of these items is intended to enhance understanding of the financial performance of the Company in the period and the extent to which results are influenced by material unusual and/or non-recurring items. Further detail of other items is set out in Note 3.

d) Significant accounting policies

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

Revenue recognition policy

The Company operates contracts with a varying degree of complexity across its service lines, so a range of methods is used for the recognition of revenue based on the principles set out in IFRS 15. Revenue represents income recognised in respect of services provided during the period based on the delivery of performance obligations and an assessment of when control is transferred to the customer.

IFRS 15 provides a single, principles based five-step model to be applied to all sales contracts as outlined below. It is based on the transfer of control of goods and services to customers and replaces the separate models for goods, services and construction contracts.

Step 1 - Identify the contract(s) with a customer

For all contracts with customers, the Company determines if the arrangement creates enforceable rights and obligations. This assessment results in certain Framework arrangements or Master Service Agreements ("MSAs") not meeting the definition of contracts under IFRS 15 unless they specify the minimum quantities to be ordered. Usually the work order and any change orders together with the Framework or MSA will constitute the IFRS 15 contract.

Duration of contract

The Company frequently enters into contracts with customers which contain extension periods at the end of the initial term, automatic annual renewals, and/or termination for convenience and break clauses that could impact the actual duration of the contract. As the term of the contract impacts the period over which amortisation of contract assets and revenue from performance obligations may be recognised, judgement is applied to assess the impact that such clauses have in determining the relevant contract term. In forming this judgement, management considers certain influencing factors including the amount of discount provided, the presence of significant termination penalties in the contract, and the relationship, experience and performance of contract delivery with the customer and/or the wider industry, in understanding the likelihood of extension or termination of the contract.

Contract modifications

The Company's contracts may be amended for changes to customer requirements. A contract modification takes place when the amendment creates new enforceable rights and obligations or changes the existing price or scope (or both) of the contract, and the modification has been approved. Contract modifications can be approved in writing, by oral agreement, or implied by customary business practices. If the parties to the contract have not approved a contract modification, revenue is recognised in accordance with the existing contractual terms. If a change in scope has been approved but the corresponding change in price is still being negotiated, change to the total transaction price is estimated. Contract modifications are accounted for as a separate contract if the contract scope changes due to the addition of distinct goods or services and the change in contract price reflects the standalone selling price of the distinct goods or services. If the price of additional distinct goods or services is not commensurate with the standalone selling prices for those goods or services, then this is considered a termination of the original contract and the creation of a new contract which is accounted for prospectively from the date of modification. Where new goods or services are not distinct from those in the original contract, then these are considered to form part of the original contract with any update to pricing recognised as a cumulative catch up to revenue. The facts and circumstances of any modification are considered in isolation as these are specific to each contract and may result in different accounting outcomes.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies (continued)

Step 2 - Identify the performance obligations in the contract

Performance obligations are the contractual promises by the Company to transfer distinct goods or services to a customer. For arrangements with multiple components to be delivered to customers, judgement is applied to consider whether those promised goods or services are:

- i. distinct and accounted for as separate performance obligations;
- ii. combined with other promised goods or services until a bundle is identified that is distinct; or
- iii. part of a series of distinct goods or services that are substantially the same and have the same pattern of transfer over time i.e. where the customer is deemed to have simultaneously received and consumed the benefits of the goods or services over the life of the contract, the Company treats the series as a single performance obligation.

Step 3 - Determine the transaction price

At contract inception, the total transaction price is determined, being the amount to which management expects the Company to be entitled and has rights under the contract. This includes the fixed price stated in the contract and an assessment of any variable consideration, up or down, resulting from e.g. discounts, rebates, service penalties. Variable consideration is typically estimated based on the expected value method and is only recognised to the extent it is highly probable that a subsequent change in its estimate would not result in a significant revenue reversal.

Step 4 - Allocate the transaction price to the performance obligations in the contract

The Company allocates the total transaction price to the identified performance obligations based on their relative stand-alone selling prices. This is predominantly based on an observable price or a cost plus margin arrangement.

Step 5 - Recognise revenue when or as the entity satisfies its performance obligations

For each performance obligation, management determines if revenue will be recognised over time or at a point in time. Where revenue is recognised over time, the Company applies the relevant output or input revenue recognition method for measuring progress that depicts the Company's performance in transferring control of the goods or services to the customer.

Certain long-term contracts use output methods based upon surveys of performance completed, appraisals of results achieved, or milestones reached which allow the Company to recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services under the contract.

Under the input method, measured progress and revenue are recognised in direct proportion to costs incurred where the transfer of control is most closely aligned to the Company's efforts in delivering the service.

Where deemed appropriate, the Company will utilise the practical expedient within IFRS 15, allowing revenue to be recognised at the amount which the Company has the right to invoice, where that amount corresponds directly with the value to the customer of the Company's performance obligations completed to date.

If performance obligations do not meet the criteria to recognise revenue over time, revenue is recognised at the point in time when control of the goods or services passes to the customer. This may be at the point of physical delivery of goods and acceptance by a customer or when the customer obtains control of an asset or service in a contract with customer-specified acceptance criteria. Sales of goods are recognised when goods are delivered and control has passed to the customer.

Repeat service-based contracts (single and bundled contracts)

The Company operates a number of single or joint-service line arrangements where repeat services meet the definition of a series of distinct services that are substantially the same (e.g. the provision of cleaning, security, catering, waste, and landscaping services). They have the same pattern of transfer of value to the customer as the series constitutes core services provided in distinct time increments (e.g. monthly or quarterly). The Company therefore treats the series of such services as one performance obligation.

Short-term service-based arrangements

The Company delivers a range of other short-term service based performance obligations and professional services work for which revenue is recognised at the point in time when control of the service has transferred to the customer. This may be at the point when the customer obtains control of the service in a contract with customer-specified acceptance criteria e.g. the delivery of a strategic operating model or report.

Other revenue

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies (continued)

Accrued income and deferred income

Where revenue recognised at the period end date is more than amounts invoiced, the Company recognises accrued income for the difference. Where revenue recognised at the period end date is less than amounts invoiced, the Company recognises deferred income for the difference.

Foreign currency

The financial statements are prepared in the functional currency applicable to the business. Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the profit and loss account for the period.

Non-monetary items are measured in terms of historical cost in a foreign currency and are not retranslated.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. The Company derecognises financial assets and liabilities only when the contractual rights and obligations are transferred, discharged or expire.

Financial assets comprise cash at bank and in hand, and trade and other debtors. The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Cash at bank and in hand include cash in hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. All of the Company's cash flows from customers are solely payments of principal and interest, and do not contain a significant financing component. Financial assets generated from all of the Company's revenue streams are therefore initially measured at their transaction price and are subsequently remeasured at amortised cost. The Company recognises a loss allowance for expected credit losses ("ECLs") on all receivable balances from customers subsequently measured at amortised cost, using a lifetime credit loss approach. ECLs are calculated on the basis of historic and forward-looking data on default risk which is applied to customers with common risk characteristics such as sector type.

Financial liabilities comprise trade and other creditors. These are measured at initial recognition at fair value and subsequently at amortised cost. Finance charges are accounted for on an accruals basis in the profit and loss account.

Investments in subsidiaries

Fixed asset investments in subsidiaries are shown at cost less any provision for impairment. Investments in subsidiaries are reviewed on an ongoing basis for any indication of impairment and, if any such indication exists, the investment's recoverable amount is estimated. An impairment loss is recognised in the profit and loss account whenever the carrying value of an asset exceeds its recoverable amount.

Retirement benefit costs

The Company operates a number of defined contribution retirement benefit schemes for all qualifying employees. Payments to the defined contribution and stakeholder pension schemes are charged as an expense as they fall due.

Notes (continued)

1 Accounting policies, judgements and estimates (continued)

d) Significant accounting policies (continued)

Share-based payments

The Company participates in a number of Mitie Group plc executive and employee share option schemes. For grants of share options and awards, the fair value as at the date of grant is calculated using the appropriate valuation model and the corresponding expense is recognised on a straight-line basis over the vesting period based on the Company's estimate of shares that will eventually vest. Further details of the Group's share option schemes are contained in the Mitie Group plc annual report.

Save As You Earn ("SAYE") options are treated as cancelled when employees cease to contribute to the scheme, resulting in an acceleration of the remainder of the related expense.

e) Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements under FRS 101 requires management to make judgements, estimates and assumptions that affect amounts recognised for assets and liabilities at the reporting date and the amounts of revenue and expenses incurred during the reporting period. Actual results may differ from these judgements, estimates and assumptions.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements, made by management in the process of applying the Company's accounting policies, that have the most significant effect on the amounts recognised in the Company's financial statements.

Revenue recognition

The Company's revenue recognition policies, which are set out under Revenue recognition in Note 1d), are central to how the Company measures the work it has performed in each financial year.

Management is required to form a number of key judgements in the determination of the amount of revenue and profits to record, and related balance sheet items such as contract assets, accrued income and deferred income to recognise. This includes an assessment of the costs the Company incurs to deliver the contractual commitments and whether such costs should be expensed as incurred or capitalised. These judgements are inherently subjective and may cover future events such as the achievement of contractual performance targets and planned cost savings or discounts.

Recoverability of trade debtors and accrued income

The Company has material amounts of billed and unbilled work outstanding at 31 March 2020. Debtors are recognised initially at cost (being the same as fair value) and subsequently at amortised cost less any allowance for impairment, to ensure that amounts recognised represent the recoverable amount. The Company recognises a loss allowance for ECLs on all receivable balances from customers using a lifetime credit loss approach and includes specific allowance for impairment where there is evidence that the Company will not be able to collect amounts due from customers, subsequent to initial recognition. Management applies judgement on specific allowances for impairment based on the information available at each reporting date which includes an assessment of current disputes with customers over commercial positions, and where information suggests customers are facing significant financial difficulties. The judgement on specific allowance for impairments on receivables as at 31 March 2020 has included an assessment of COVID-19 impacts.

Recoverability of amounts owed by Group undertakings

The Company has material amounts owed by Group undertakings outstanding at year end. The judgement as to whether an amount has become irrecoverable is an assessment made by the Directors in the determination of the expected total credit loss recognised under IFRS 9. This assessment takes into consideration Group solvency and access to Group funding by the debtor. The Directors consider the full amount owed to be recoverable under IFRS 9.

Other items

'Other items' are items of financial performance which management believes should be separately identified on the face of the profit and loss account to assist in understanding the underlying financial performance achieved by the Company. Determining whether an item should be classified within other items requires judgement as to whether an item is or is not part of the underlying performance of the Company.

Key sources of estimation uncertainty

There were no key sources of estimation uncertainty at the balance sheet date that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

Notes (continued)

2 Turnover

	2020 £000	2019 £000
By geographical market:		
United Kingdom	3,890	5,850
Other European Union	568	8
Outside European Union	301	201
	<u>4,759</u>	<u>6,059</u>

3 Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	2020 £000	2019 £000
Other items	400	-
<i>Restructuring costs</i>	<u>400</u>	<u>-</u>

4 Staff numbers and costs

There were no persons employed by the Company (including Directors) during the year ended 31 March 2020 and 31 March 2019. However, 23 employees worked for Source Eight Limited but were employed by another Group company and the associated costs were allocated to the Company for cost recharging purposes (2019: 43). The aggregate payroll costs incurred by the Company for allocated employees were as follows:

	2020 £000	2019 £000
Wages and salaries	1,718	2,326
Share-based payments	26	(38)
Social security costs	166	226
Termination and redundancy payments	361	-
Pension costs	57	266
	<u>2,328</u>	<u>2,780</u>

Redundancy costs of £342,000 have been recorded in Other items (Note 3).

Notes (continued)

5 Directors' remuneration

The following Directors were also directors or employees of another Group company. They were remunerated by the company shown. It is not practicable to allocate their remuneration between their services as Directors of this Company and as directors or employees of other Group companies.

Director	Remunerated by	Disclosed by
S C Kirkpatrick	Mitie Limited	Mitie Limited
P J G Dickinson	Mitie Limited	Mitie Limited
M Idle	Mitie Limited	Mitie Limited

Remuneration in relation to Directors of the Company remunerated by Mitie Limited but not disclosed by Mitie Limited is as follows:

	2020 £000	2019 £000
Directors' emoluments	271	200
Company contributions to money purchase pension plans	24	74
	<u>295</u>	<u>274</u>

In respect of the highest paid Director:

	2020 £000	2019 £000
Emoluments and amounts receivable under long-term incentive schemes	-	100
Money purchase pension contributions	-	37

	Number of Directors 2020	2019
Retirement benefits are accruing to the following number of Directors under:		
Money purchase schemes	1	2
	<u>1</u>	<u>2</u>

6 Interest receivable and similar income

	2020 £000	2019 £000
Bank interest	1	5
Interest receivable and similar income from Group undertakings	8	33
	<u>9</u>	<u>38</u>
Total	<u>9</u>	<u>38</u>

Notes (continued)

7 Interest payable and similar expenses

	2020 £000	2019 £000
Interest payable and similar expenses on bank loans and overdrafts	-	14
Interest payable to Group undertakings	125	113
	<hr/>	<hr/>
Total	125	127
	<hr/>	<hr/>

8 Tax

	2020 £000	2019 £000
<i>Analysis of (credit)/charge in the year</i>		
<i>UK corporation tax at 19% (2019: 19%)</i>		
Current tax on loss for the period	(175)	17
Adjustments in respect of prior periods	69	102
	<hr/>	<hr/>
Total current tax	(106)	119
<i>Deferred tax (see note 12)</i>		
Origination and reversal of temporary timing differences	75	76
Restatement of opening deferred tax balances	(4)	-
Reduction in statutory tax rate	-	(2)
Adjustments in respect of prior periods	(59)	(13)
	<hr/>	<hr/>
Total deferred tax	12	61
	<hr/>	<hr/>
Total (credit)/charge for the year	(94)	180
	<hr/>	<hr/>
	2020 £000	2019 £000
<i>Reconciliation of effective tax rate</i>		
Loss before tax	(555)	(12)
Tax using the UK corporation tax rate of 19% (2019: 19%)	(105)	(2)
Restatement of opening deferred tax balances	(4)	-
Reduction in statutory tax rate on deferred tax balances	-	(2)
Items not deductible for tax purposes	-	85
Adjustments in respect of employee share options	5	10
Adjustments in respect of prior periods	10	89
	<hr/>	<hr/>
Total tax (credit)/charge	(94)	180
	<hr/>	<hr/>

The UK corporation tax rate was due to reduce from 19% to 17% from 1 April 2020. This change is no longer occurring and as a consequence a credit of £4,000 (2019: £nil) has been included in the tax charge. The UK deferred tax assets at 31 March 2020 reflect this change.

Notes (continued)

9 Investments in subsidiaries

The Company has the following investments in Group undertakings.

	Shares in Group undertakings £000
Cost	
At 1 April 2018	16
31 March 2019	16
At 31 March 2020	16
Net book value	
At 31 March 2019	16
At 31 March 2020	16

Company	Country of incorporation	Class of shares held	Ownership 2020
Source8 Africa Limited*	England and Wales	Ordinary (all classes)	100%
Source8 Delivery (Nigeria) Limited*	Nigeria	Ordinary	0.1%
Source8 Delivery (Nigeria) Limited	Nigeria	Ordinary	99.9%
Source8 Services FZLLC*	United Arab Emirates	Ordinary	100%

* Held directly by the Company.

The registered office of all companies listed above is Level 12, The Shard, 32 London Bridge Street, London, SE1 9SG with the exception of the following.

Company	Registered office address
Source8 Delivery (Nigeria) Limited	235 Ikorodu Road, Ilupeju, Lagos, Nigeria
Source8 Services FZLLC	Creative City, PO Box 4422, Fujairah, United Arab Emirates

10 Debtors

	2020 £000	2019 £000
Trade debtors	506	947
Amounts owed by Group undertakings	427	445
Corporation tax	182	158
Prepayments	30	40
Accrued income	587	639
Other debtors	69	745
Total	1,801	2,974

In the opinion of the Directors, the fair value does not materially differ from the carrying value.

Amounts owed by Group undertakings are repayable on demand.

Notes (continued)

11 Creditors

	2020 £000	2019 £000
Trade creditors	146	409
Amounts owed to Group undertakings	3,395	3,517
Other taxes and social security	150	287
Accruals	512	547
Other creditors	3	5
	<u>4,206</u>	<u>4,765</u>

Included within amounts owed to Group undertakings above is £3,000,000 (2019: £2,301,000) relating to a loan bearing interest at 5% per annum (2019: 5% per annum).

Amounts owed to Group undertakings are repayable on demand.

12 Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	2020 £000	2019 £000
Tangible fixed assets	6	10
Share-based payments	4	3
Provisions	10	19
	<u>20</u>	<u>32</u>
Net deferred tax assets	<u>20</u>	<u>32</u>

Notes (continued)

12 Deferred tax assets (continued)

Movement in deferred tax during the year

	1 April 2019	Recognised in income	31 March 2020
Tangible fixed assets	10	(4)	6
Share-based payments	3	1	4
Provisions	19	(9)	10
	<u>32</u>	<u>(12)</u>	<u>20</u>

Movement in deferred tax during the prior year

	1 April 2018 £000	Recognised in income £000	31 March 2019 £000
Tangible fixed assets	9	1	10
Share-based payments	2	1	3
Provisions	29	(10)	19
Tax losses carried forward	53	(53)	-
	<u>93</u>	<u>(61)</u>	<u>32</u>

The UK corporation tax rate was due to reduce from 19% to 17% from 1 April 2020. This change is no longer occurring and as consequence deferred tax balances are now valued using the 19% corporation tax rate. The opening deferred tax balances, previously valued using the 17% rate, have therefore been restated by £4,000 in the current period, with all of this adjustment being recognised in income.

13 Capital and reserves

Share capital authorised and fully paid

	2020 Number	2019 Number	2020 £000	2019 £000
Ordinary shares				
Ordinary shares at £0.01 each	14,000	14,000	-	-
Ordinary-A shares at £0.01 each	1,000,000	1,000,000	10	10
Ordinary-B shares at £0.01 each	1,000,000	1,000,000	10	10
	<u>2,014,000</u>	<u>2,014,000</u>	<u>20</u>	<u>20</u>

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

Profit and loss account

The profit and loss account comprises the retained earnings and losses of the Company, less amounts distributed to the Company's shareholder.

Notes (continued)

14 Related Parties

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries within the Group.

15 Subsequent events

On 30 November 2020, the Group announced that it had completed the acquisition of the entire issued share capital of Interservefm (Holdings) Limited. The consideration for the acquisition comprised the issuance of 248 million ordinary shares, representing c. 17.5% of the share capital of Mitie Group plc, and a cash consideration of £120m. The actual cash payment made at completion was £105m, being the £120m cash consideration adjusted for the estimated debt, debt like items and working capital as at the completion date (which will be validated by a completion accounts process).

On 24 November 2020, the shareholders of the Company provided a capital contribution in the form of a non-refundable gift of £1,500,000.

16 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Mitie Investments Limited which is the immediate parent company incorporated in England and Wales. The ultimate controlling party is Mitie Group plc, a company incorporated in Scotland with its registered office at 35 Duchess Road, Rutherglen, Glasgow, G73 1AU. Mitie Group plc is the parent company of the largest and smallest groups into which the accounts of the Company are consolidated. The consolidated financial statements of Mitie Group plc are available to the public and may be obtained from the Company Secretary at Level 12, The Shard, 32 London Bridge Street, London, SE1 9SG or from www.mitie.com.