

Company Registration No. 08821900 (England and Wales)

Challenge Recruitment Group Limited

**Annual report and financial statements
for the year ended 31 March 2020**



Challenge Recruitment Group Limited

Company information

Directors	Richard Cropper Thomas Cropper Gary Cottom Paedar O'Reilly David Foreman Daniel Archer
Company number	08821900
Registered office	1 Smithy Court Smithy Brook Road Wigan Lancashire WN3 6PS
Independent auditor	Saffery Champness LLP City Tower Piccadilly Plaza Manchester M1 4BT

Challenge Recruitment Group Limited

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Challenge Recruitment Group Limited

Strategic report

For the year ended 31 March 2020

The directors present the strategic report for the year ended 31 March 2020.

Fair review of the business

Challenge Recruitment Group Limited is the intermediate holding company of a group of companies which provide recruitment, transport and training services to the logistics sector, further details of which are provided at note 10 to the accounts. The results of the group are consolidated in the ultimate parent company, Challenge Group Holdings Limited, which are publicly available.

During the year, Challenge Recruitment Group Limited completed the acquisition of 100% of the issued share capital of TRG Logistics Limited ('TRG'), via the acquisition of its intermediate holding company NL Gordon Limited.

TRG is an established provider of temporary labour to the logistics sector, founded in 2000 and based in Surrey. The acquisition of TRG significantly expands the geographical reach of the enlarged Group, enabling it to serve new and existing clients in key markets in the South of England.

The Directors are pleased with the performance of the Group during the period, both as a result of organic growth and the aforementioned acquisition, noting in particular the continued strengthening of Group profit margins, with gross profit and EBITDA margins increasing to 12.9% (2019: restated 11.4%) and 3.9% (2019: restated 2.6%), respectively

Principal risks and uncertainties

Performance in the sector is affected by general economic conditions. The Directors carry out regular assessments of competitor activity, customer behaviour and general market conditions to ensure they can identify and react to any risks and opportunities as they arise.

Covid-19

During the financial year, the world witnessed the onset of a global pandemic following the outbreak of the SARS-CoV-2 virus (also known as 'Coronavirus' and 'Covid-19') in China. The resultant restrictions imposed by the UK Government on businesses and households, characterised by a total lockdown from March 2020 and the gradual easing of restrictions between June and August 2020, had a significant impact on most sectors of the economy, including transport and logistics.

Whilst some of the Group's activities were curtailed entirely during the period of total lockdown, in particular those contracts serving end clients in the non-essential hospitality and leisure sectors, other areas performed more strongly than would ordinarily be anticipated for the time of year, particularly those business units with a greater degree of exposure to essential grocery retail and home delivery businesses.

Consequently, the adverse impacts in some areas were broadly offset by favourable developments in others and, owing to the diverse range of end clients which the Group continues to serve, the Directors consider that the ongoing pandemic poses less of a risk to the Group's ability to continue in operation than it does to many businesses of comparable scope and scale.

Challenge Recruitment Group Limited

Strategic report (continued)

For the year ended 31 March 2020

Brexit

Further to the UK's formal departure from the European Union ('Brexit') in January 2019 and the commencement of the 12-month transition period, the UK and EU continue in their attempts to negotiate a free trade agreement which will, among other things, aims to facilitate tariff-free trading between the parties.

Although businesses are doing their best to prepare for the effects of departure, the continued lack of forward guidance on the nature of any future relationship is clearly hampering those efforts greatly.

The Directors feel that, in the event of a 'no deal' departure and the possible imposition of tariffs on trade between the UK and the EU, the Group has taken as many preparatory steps as reasonably practicable.

In particular, the Directors consider that the acquisition of recruitment businesses in alternative regions of the UK and the diversification achieved through the 2019 acquisition of a training business will stand the Group in good stead in that event.

In addition to allowing the Group to expand its current offering to recruitment and transport clients, the acquisition of Phoenix Training Services (Midlands) Limited will facilitate the training and upskilling of existing resource in the event that a 'no deal' departure causes difficulties in recruiting skilled workers from foreign jurisdictions.

It is further envisaged that, in addition to ensuring the Group's own supply of qualified candidates, such services could be made commercially available to non-competing transport and warehousing businesses who are unable to deliver training internally.

Owing to the relatively large number of smaller market participants, in particular within the temporary labour recruitment sector, it is anticipated that any resourcing constraints resulting from a 'no deal' scenario are likely to lead to a contraction in the supplier base as smaller participants struggle to replace the natural churn of candidates.

In addition to the other steps taken to ensure continuity of supply following a possible 'no deal' Brexit, the Group has also been working closely with legal advisors in the immigration field and is working to support all current employees through the process of applying for settled / pre-settled status via the EU Settlement Scheme.

Financial risk

The Group has exposures to two main areas of financial risk - liquidity risk and customer credit exposure.

Liquidity risk

The objective of the group in managing liquidity risk is to ensure that it can meet its financial obligations as and when they fall due. The group expects to meet its financial obligations through operating cash flows, including the use of invoice discounting facilities.

Customer credit exposure

The group offers credit terms to its customers which allows payment of the debt after the service is provided. The group is at risk to the extent that a customer may be unable to pay the debt on the specified due date but seek to minimise this risk by checking the credit worthiness of customers and by using invoice discounting services including, where feasible, credit insurance.

Challenge Recruitment Group Limited

Strategic report (continued)

For the year ended 31 March 2020

Future developments

The Directors anticipate that the group will remain very competitive in the market place and are confident that turnover and profitability will continue to increase.

Human resources and employment policy

The group's most important resource is its people and their knowledge and experience is crucial to meeting customer requirements. The retention of key staff is crucial.

The group is committed to achieving excellence in Health & Safety, welfare and protection of its employees

On behalf of the board



Thomas Cropper
Director

Date: 14/10/2020

Challenge Recruitment Group Limited

Directors' report

For the year ended 31 March 2020

The directors present their annual report and financial statements for the year ended 31 March 2020.

Principal activities

The principal activity of the company continued to be that of a non-trading holding company.

Directors

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

Richard Cropper
Thomas Cropper
Gary Cottom
Paedar O'Reilly
David Foreman
Daniel Archer

Results and dividends

The results for the year are set out on page 9.

Ordinary dividends were paid amounting to £627,750. The directors do not recommend payment of a further dividend.


Auditor

Saffery Champness LLP have expressed their willingness to continue in office.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board



Thomas Cropper
Director

Date: 14/10/2020.....

Challenge Recruitment Group Limited

Directors' responsibilities statement For the year ended 31 March 2020

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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;
- 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Challenge Recruitment Group Limited

Independent auditor's report

To the member of Challenge Recruitment Group Limited

Opinion

We have audited the financial statements of Challenge Recruitment Group Limited (the 'company') for the year ended 31 March 2020 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Challenge Recruitment Group Limited

Independent auditor's report (continued)

To the member of Challenge Recruitment Group Limited

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

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

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

Challenge Recruitment Group Limited

Independent auditor's report (continued)

To the member of Challenge Recruitment Group Limited

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's member 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 member 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 member for our audit work, for this report, or for the opinions we have formed.



Simon Kite BSc FCA (Senior Statutory Auditor)
for and on behalf of Saffery Champness LLP

...14/10/2020

Chartered Accountants
Statutory Auditors

City Tower
Piccadilly Plaza
Manchester
M1 4BT

Challenge Recruitment Group Limited

**Statement of comprehensive income
For the year ended 31 March 2020**

		2020	2019
	Notes	£	as restated £
Administrative expenses		(118)	(245)
Interest receivable and similar income	5	850,000	300,000
Interest payable and similar expenses	6	(208,606)	-
Profit before taxation		<u>641,276</u>	<u>299,755</u>
Tax on profit	7	-	-
Profit for the financial year		<u><u>641,276</u></u>	<u><u>299,755</u></u>

The income statement has been prepared on the basis that all operations are continuing operations.

Challenge Recruitment Group Limited

Statement of financial position
As at 31 March 2020

	Notes	2020		2019 as restated	
		£	£	£	£
Fixed assets					
Investments	9	21,012,834		6,622,511	
Current assets					
Debtors	11	5,199		929,045	
Cash at bank and in hand		2,323		-	
		<u>7,522</u>		<u>929,045</u>	
Creditors: amounts falling due within one year	12	<u>(15,308,568)</u>		<u>(3,248,617)</u>	
Net current liabilities			<u>(15,301,046)</u>		<u>(2,319,572)</u>
Total assets less current liabilities			<u>5,711,788</u>		<u>4,302,939</u>
Creditors: amounts falling due after more than one year	13		<u>(5,654,260)</u>		<u>(4,258,937)</u>
Net assets			<u><u>57,528</u></u>		<u><u>44,002</u></u>
Capital and reserves					
Called up share capital	15		100		100
Share premium account	16		43,902		43,902
Profit and loss reserves	17		13,526		-
Total equity			<u><u>57,528</u></u>		<u><u>44,002</u></u>

The financial statements were approved by the board of directors and authorised for issue on 14/10/2020 and are signed on its behalf by:



Thomas Cropper
Director

Company Registration No. 08821900

Challenge Recruitment Group Limited

**Statement of changes in equity
For the year ended 31 March 2020**

	Notes	Share capital £	Share premium account £	Profit and loss reserves £	Total £
As restated for the period ended 31 March 2019:					
Balance at 1 April 2018		100	43,902	245	44,247
Year ended 31 March 2019:					
Profit and total comprehensive income for the year		-	-	299,755	299,755
Dividends	8	-	-	(300,000)	(300,000)
Balance at 31 March 2019		100	43,902	-	44,002
Year ended 31 March 2020:					
Profit and total comprehensive income for the year		-	-	641,276	641,276
Dividends	8	-	-	(627,750)	(627,750)
Balance at 31 March 2020		100	43,902	13,526	57,528

Challenge Recruitment Group Limited

Notes to the financial statements For the year ended 31 March 2020

1 Accounting policies

Company information

Challenge Recruitment Group Limited is a private company limited by shares incorporated in England and Wales. The registered office is 1 Smithy Court, Smithy Brook Road, Wigan, Lancashire, WN3 6PS.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

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

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

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 4 'Statement of Financial Position' – Reconciliation of the opening and closing number of shares;
- Section 7 'Statement of Cash Flows' – Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 26 'Share based Payment' – Share-based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash-settled share-based payments, explanation of modifications to arrangements;
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

The financial statements of the company are consolidated in the financial statements of Challenge Group Holdings Limited. These consolidated financial statements are available from its registered office, 1 Smithy Court, Smithy Brook Road, Wigan, WN3 6PS.

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

1 Accounting policies (continued)

1.2 Going concern

The net current liabilities position has arisen as a result of the financing of the acquisitions in the year. The repayments of the financing will be funded by the profits of the group. Therefore, at the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Fixed asset investments

Interests in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

1.4 Cash and cash equivalents

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.5 Financial instruments

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

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

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

1 Accounting policies (continued)

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

1.6 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Challenge Recruitment Group Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

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

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Contingent consideration

Included within other creditors is contingent consideration of £4,200,000 in relation to the purchase of NLGordon Limited. The contingent consideration may be upwardly or downwardly adjusted dependent upon the profitability (adjusted EBITDA) of the business during the 2 year period to 31 December 2020. The target EBITDA results in an annual performance payment of up to £2,800,000 on a sliding scale. For the period to 31 December 2019, the directors best estimate is that a payment of £1,400,000 will be payable. For the period to 31 December 2020, the directors best estimate is that a payment of £2,800,000 will be payable.

Included within other creditors is contingent consideration of £511,465 in relation to the purchase of Phoenix Training Services (Midlands) Limited. The contingent consideration may be upwardly or downwardly adjusted dependent upon the profitability (adjusted EBITDA) of the business during the period to 31 July 2021. The company did not meet the minimum target adjusted EBITDA for the period to 31 July 2019 and the results of the company in the period to 31 July 2020 indicate that no contingent consideration will be payable. The directors best estimate is that the results of the company for the period to 31 July 2021 will improve and therefore the contingent consideration of £586,667, discounted to £511,465 will be payable.

3 Operating loss

Auditors remuneration is accounted for in the subsidiary undertaking The Recruitment Shed Limited.

4 Employees

The average monthly number of persons (including directors) employed by the company during the year was 0 (2019 - 0).

5 Interest receivable and similar income

	2020	2019
	£	£
Income from fixed asset investments		
Income from shares in group undertakings	850,000	300,000
	<u> </u>	<u> </u>

6 Interest payable and similar expenses

	2020	2019
	£	£
Other interest on financial liabilities	208,606	-
	<u> </u>	<u> </u>

Challenge Recruitment Group Limited

Notes to the financial statements (continued) For the year ended 31 March 2020

7 Taxation

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2020	2019
	£	as restated £
Profit before taxation	641,276	299,755
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	121,842	56,953
Group relief	39,658	47
Dividend income	(161,500)	(57,000)
Taxation charge for the year	-	-

The main rate of corporation tax for the year ended 31 March 2020 was 19%. The government originally announced that from 1 April 2020 the rate will be 17%. However, at the budget in March 2020 it was proposed that the corporation tax rate from 1 April 2020 would be 19% and the same rate will apply from 1 April 2021.

8 Dividends

	2020	2019
	£	£
Interim paid	627,750	300,000

9 Fixed asset investments

	2020	2019
Notes	£	£
Investments in subsidiaries	10 21,012,834	6,622,511

Challenge Recruitment Group Limited

Notes to the financial statements (continued)
For the year ended 31 March 2020

9 Fixed asset investments (continued)

Movements in fixed asset investments

	Shares in group undertakings £
Cost or valuation	
At 1 April 2019	6,622,511
Additions	15,077,807
Valuation changes	(687,484)
At 31 March 2020	<u>21,012,834</u>
Carrying amount	
At 31 March 2020	<u>21,012,834</u>
At 31 March 2019	<u><u>6,622,511</u></u>

During the year the company purchased 100% of the share capital of NLGordon Limited for a consideration of £15,077,807. TRG Logistics Ltd is the wholly owned trading subsidiary of NLGordon Limited.

The contingent consideration payable on the acquisition of Phoenix Training Services (Midlands) Limited has been revalued down by £939,485. Fees payable to the previous owner of 3 years of £252,000 have been capitalised as part of the acquisition cost.

Challenge Recruitment Group Limited

Notes to the financial statements (continued) For the year ended 31 March 2020

10 Subsidiaries

Details of the company's subsidiaries at 31 March 2020 are as follows:

Name of undertaking	Address	Nature of business	Class of shares held	% Held	
				Direct	Indirect
Challenge Logistics Limited	1	Dormant	Ordinary	-	100.00
Challenge Transport and Distribution Limited	1	Traction services	Ordinary	100.00	-
Deployment Limited	2	Recruitment services	Ordinary	100.00	-
Deployment Services Limited	2	Recruitment services	Ordinary	-	100.00
Firststep Recruitment Solutions Limited	1	Recruitment services	Ordinary	100.00	-
Phoenix Training Services (Midlands) Limited	1	Provision of training courses	Ordinary	100.00	-
The Recruitment Shed Limited	1	Recruitment services	Ordinary	100.00	-
NLGordon Limited	3	Holding company	Ordinary	100.00	-
TRG Logistics Ltd	3	Recruitment services	Ordinary	-	100.00

Registered office addresses (all UK unless otherwise indicated):

- 1 1 Smithy Brook Court, Smithy Brook Road, Wigan. Lancashire. WN3 6PS.
- 2 Metier House, 133 Manchester Road, Rochdale. Lancashire. OL11 4JG.
- 3 2nd Floor, Pathtrace House, 91-99 High Street, Banstead, Surrey, SM7 2NL.

Challenge Recruitment Group Limited

Notes to the financial statements (continued) For the year ended 31 March 2020

11 Debtors		2020	2019
Amounts falling due within one year:		£	£
Amounts owed by group undertakings		-	923,846
Other debtors		5,199	5,199
		<u>5,199</u>	<u>929,045</u>

12 Creditors: amounts falling due within one year		2020	2019
	Notes	£	as restated £
Bank loans	14	2,345,740	690,022
Amounts owed to group undertakings		8,068,360	1,893,748
Other creditors		4,894,468	627,101
Accruals and deferred income		-	37,746
		<u>15,308,568</u>	<u>3,248,617</u>

Included within other creditors is contingent consideration of £4,200,000 in relation to the purchase of NLGordon Limited. The contingent consideration may be upwardly or downwardly adjusted dependent upon the profitability (adjusted EBITDA) of the business during the period to 31 December 2021. The target EBITDA results in an annual performance payment of up to £2,800,000 on a sliding scale.

Included within other creditors is contingent consideration of £511,465 in relation to the purchase of Phoenix Training Services (Midlands) Limited. The contingent consideration may be upwardly or downwardly adjusted dependent upon the profitability (adjusted EBITDA) of the business during the period to 31 July 2021. The target EBITDA results in an annual performance payment of up to £586,667 on a sliding scale. A discounting factor of 5.5% has been used when calculating the future discounted cash flows of the deferred consideration.

Challenge Recruitment Group Limited

Notes to the financial statements (continued) For the year ended 31 March 2020

13 Creditors: amounts falling due after more than one year

	Notes	2020 £	2019 £
Bank loans and overdrafts	14	5,654,260	3,210,086
Other creditors		-	1,048,851
		<u>5,654,260</u>	<u>4,258,937</u>

14 Loans and overdrafts

	2020 £	2019 £
Bank loans	<u>8,000,000</u>	<u>3,900,108</u>
Payable within one year	2,345,740	690,022
Payable after one year	<u>5,654,260</u>	<u>3,210,086</u>

HSBC Bank plc has fixed and floating charges over the assets of the company, dated 14 September 2016 and 29 October 2014.

HSBC has a negative pledge over the assets of the company, dated 24 September 2018, 11 March 2019 and 29 April 2019.

Praetura Debt Limited has fixed and floating charges and a negative pledge over the assets of Challenge Group Holdings Limited and its subsidiary undertakings, dated 29 April 2019.

HSBC Bank plc also has a Composite Company Unlimited Multilateral Guarantee dated 29 October 2014 given by Challenge Recruitment Group Limited, The Recruitment Shed Limited, Challenge Logistics Limited, Firststep Recruitment Solutions Limited, and Challenge Transport and Distribution Limited.

15 Share capital

	2020 £	2019 £
Ordinary share capital Issued and fully paid		
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>

16 Share premium account

Share premium represents amounts paid for shares in excess of their nominal value.

Challenge Recruitment Group Limited

**Notes to the financial statements (continued)
For the year ended 31 March 2020**

17 Profit and loss reserves

Profit and loss reserves represent accumulated profits and losses, less dividends paid.

18 Related party transactions

The following amounts were outstanding at the reporting end date:

	2020	2019
	£	£
Amounts due from related parties		
Entities related to the shareholders	5,195	5,196
	<u>5,195</u>	<u>5,196</u>

19 Ultimate controlling party

Challenge Group Holdings Limited is the immediate parent company and ultimate controlling party of the company.

Challenge Group Holdings Limited is the largest and smallest group in which Challenge Recruitment Group Limited is a member and for which consolidated financial statements are prepared and publicly available. A copy of the group financial statements can be obtained from Challenge Group Holdings Limited, 1 Smithy Court, Smithy Brook Road, Wigan, WN3 6PS.

20 Prior period adjustment

Reconciliation of changes in equity

		1 April	31 March
		2018	2019
	Notes	£	£
Adjustments to prior year			
Investment legal fees	1	-	(37,746)
Equity as previously reported		44,247	81,748
Equity as adjusted		<u>44,247</u>	<u>44,002</u>

Challenge Recruitment Group Limited

Notes to the financial statements (continued)
For the year ended 31 March 2020

20 Prior period adjustment (continued)

Reconciliation of changes in profit for the previous financial period

	Notes	2019 £
Adjustments to prior year		
Investment legal fees	1	(37,746)
Profit as previously reported		337,501
		<hr/>
Profit as adjusted		299,755
		<hr/> <hr/>

Notes to reconciliation

Investment legal fees

Capitalised legal fees in relation to the purchase of Deployment Limited were credited to the profit and loss account in the prior year instead of being accrued.