

Company Registration No. 08821900 (England and Wales)

Challenge Recruitment Group Limited

**Annual report and financial statements
for the year ended 31 March 2021**

Challenge Recruitment Group Limited

Company information

Directors	Richard Cropper Thomas Cropper 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 Trinity 16 John Dalton Street Manchester M2 6HY

Challenge Recruitment Group Limited

Contents

	Page
Strategic report	1 - 5
Directors' report	6 - 7
Independent auditor's report	8 - 11
Statement of comprehensive income	12
Statement of financial position	13
Statement of changes in equity	14
Notes to the financial statements	15 - 26

Challenge Recruitment Group Limited

Strategic report

For the year ended 31 March 2021

The directors present the strategic report for the year ended 31 March 2021.

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 8 to the accounts. The results of the group are consolidated in the ultimate parent company, Challenge Group Holdings Limited, which are publicly available.

The Directors are pleased with the performance of the Group during the period, in particular as this was achieved despite the challenges and limitations created by the global Covid-19 pandemic (discussed in further detail below).

During the year ended 31 March 2021, the Group's revenues increased by 7.2% to £93.8m, despite the cessation of trade for significant periods during the year of multiple areas of the Group, comprising primarily those divisions which served clients in the food and drink retail sectors.

Overall, the Group recorded a 1.0% reduction in the gross profit margin, driven by changes in the group's mix of business. This was primarily as a result of the Covid-19 pandemic which saw the Group significantly expand its recruitment offering in the final mile logistics sector. Organisations within the sector typically operate smaller vehicles, requiring less specialised labour, and saw demand for their services expand rapidly following a boom in home deliveries.

Despite the gross profit margin reduction, the Group's EBITDA margin was consistent with the prior year (proforma) EBITDA margin at 4.7%, primarily due to cost saving initiatives instituted by the Group together naturally efficiencies arising from home-based working, such as reduced motor, travel and subsistence costs incurred by Group staff.

In line with the Group's P&L performance, net assets increased by £1.6m after statutory accounting adjustments.

The Directors consider the Group's principal non-financial Key Performance Indicator (KPI) to be achievement of its People, Environment, Social and Governance objectives. This is discussed in further detail in the financial statements of the ultimate parent company, Challenge Group Holdings Limited, which are publicly available.

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

On 11th March 2020, the World Health Organisation declared the novel coronavirus (COVID-19) outbreak a global pandemic. On 23rd March 2020, the UK Government ordered the first of several UK-wide lockdowns.

Challenge Recruitment Group Limited

Strategic report (continued)

For the year ended 31 March 2021

Covid-19 continued...

Recognising the crucial role that the Group plays in the UK supply chain, particularly for essential retailers, the Directors immediately put in place a number of measures to ensure the safety and wellbeing of our employees whilst maintaining critical supply to the Group's clients, including:

- Implementing a Work from Home policy, led by the HR, IT and Senior Management teams, for all office-based staff and group staff whose roles did not feature essential attendance at Group or client locations; and
- For those staff members whose attendance was deemed essential, in line with their designation as key workers, the Group introduced strict social distancing and sanitation measures across all Group offices and locations, featuring workstation separation and segregation, one-way systems, hand sanitising stations, staff and visitor temperature monitoring, and covid testing kits being made available;

Whilst the vast majority of the Group's workforce continued to be deployed to their existing roles, under the stringent measures outlined above, some of those colleagues who were serving clients in industries forced to suspend activity (such as those engaged in the fast food and alcoholic beverage supply chains) were either redeployed to alternative areas or placed on the Government's Coronavirus Job Retention ('furlough') Scheme.

The Group was successful in redeploying the majority of workers and, in total, only 146 colleagues accessed the furlough scheme, representing just 2.5% of the Group's combined workforce.

Through the Group's fastidious application of its COVID-19 policies and procedures, it was able to continue safeguarding its people, protecting its stakeholders' interests and, crucially, serving its existing and new clients in their efforts to support the UK supply chain.

Brexit

Although the Group trades exclusively within the United Kingdom, a significant proportion of the UK's HGV Driver workforce are EU nationals.

Consequently, the impact of the UK's decision to leave the European Union, and the subsequent trade negotiations, have created a significant degree of uncertainty within the Group's target markets over several years.

Following the UK's formal departure from the EU in January 2020, and the commencement of the Brexit transition period, the Group has focussed its efforts on assisting relevant members of its workforce to access the EU settlement scheme, in line with its people policy.

During the year ended 31 March 2021, the Group directly assisted over 200 of its colleagues to successfully apply for settled status, representing in excess of 30% of eligible colleagues.

The Group continues to support affected staff and has recently concluded an initiative to provide key information documents to colleagues in multiple European target languages as well as providing ongoing advice through engagement with immigration law specialists.

Challenge Recruitment Group Limited

Strategic report (continued)

For the year ended 31 March 2021

IR35

Another significant development impacting the Group's core markets within the year was the announcement in the Chancellor's Spring Budget 2020 that changes to the off-payroll working rules (IR35), which had been announced in the Autumn Budget 2017 and which were due to take effect from April 2020, would be delayed until April 2021.

Whilst the vast majority of UK businesses considered the announcement to have been made very late, with a significant degree of resultant disruption, the announcement was generally well received by organisations already working hard to deal with the impacts of the emergent COVID-19 pandemic and Brexit.

Although the Group was no exception to this, the Directors immediately commenced the process of working with key clients to establish contingency plans for the deferred implementation date in April 2021. Consequently, during the year, the Group developed robust strategies, in concert with clients, legal counsel and taxation advisors, to deal with the transition in April 2021.

The Directors consider that this leaves the Group well placed to continue its impeccable service record for clients and to proceed with its ambitious growth plans.

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.

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.

Challenge Recruitment Group Limited

Strategic report (continued)

For the year ended 31 March 2021

Promoting the success of the company

Engaging with stakeholders

As part of the Board's decision-making process, in line with their duties under s172 of the Companies Act 2006, the Board consider the potential impact of decisions on all relevant stakeholders and the likely consequences of these decisions in the long term.

The senior management team make decisions with a long-term view in mind and with the highest standards of conduct in line with Company and Group policies and procedures. In the execution of their duties, the Directors ensure they consider the probable consequences for all stakeholders in the decisions and actions that they take as Company Directors. Where possible, decisions taken are carefully discussed with affected stakeholders and are, therefore, fully understood and supported.

The Directors are well informed about the views of stakeholders and use this information to assess the impact of decisions on each stakeholder group as part of their own decision-making process. Details of the Company's key stakeholders and how the Company engages with them are set out below.

Shareholders

The Company's ultimate parent undertaking is Challenge Group Holdings Limited, a number of the shareholders in which are Executive and Non-Executive Directors of the Company. Regular Board meetings are held throughout the year to ensure regular open dialogue and clear communication. The topics discussed include financial performance, strategy, outlook, governance, and ethical practices. Shareholder feedback is regularly reported to and discussed by the Board, meaning the views and opinions of the Company's shareholders are always reflected in any key business decisions taken.

Employees

The long-term success of the Group relies upon our employees being fully engaged and committed to our strategy and core values. The Directors take active steps to ensure that the suggestions, views and interests of our employees are captured and considered in decision making. Regular communication calls are held in order to share performance, strategy and seek feedback. This feedback is sought through team meetings and employee surveys.

Customers

Strong customer relationships are crucial to both achieving new business growth and retaining existing business. Consequently, the Group regularly engages with its customers via the daily interactions of the account managers and the operations senior management team. The Group measures its performance against its customers' expectations through this regular dialogue and client feedback is continually used by management to assess whether the needs of the Group's customers are being met. Information about customer needs and views is communicated to the Board for use in both its short term and long-term decision making.

Challenge Recruitment Group Limited

Strategic report (continued)

For the year ended 31 March 2021

Suppliers

Key commercial suppliers to the Group are lease vehicle suppliers, fuel providers, property landlords, legal and professional advisors and technology suppliers. The Group works closely with such suppliers to ensure that there are clear frameworks defined for the relationships to operate within, and we have multi-year contracts with a number of our key suppliers. The Board recognises that the Group's relationships with its suppliers are critical and is briefed on supplier feedback when needed.

Government and regulators

The Group operates within markets which are subject to extensive laws and regulations which continually change and evolve. The Group regularly engages with its legal and professional advisors in order to ensure full compliance with all necessary laws and regulations. In addition, the Group is a member of a number of trade organisations, through which it engages with government and regulators. The Board is routinely updated on legal and regulatory developments and takes these into account when considering any key decisions for the business

Environment

The Directors recognise the importance of continuously reducing the Group's environmental impact and ensuring ongoing improvements to environmental sustainability performance. The Group operates an established People, Environment, Social and Governance ('PESG') strategy, which is documented in further detail in the financial statements of the ultimate parent company, Challenge Group Holdings Limited, which are publicly available.

On behalf of the board

Thomas Cropper

Director

23 November 2021

Challenge Recruitment Group Limited

Directors' report

For the year ended 31 March 2021

The directors present their annual report and financial statements for the year ended 31 March 2021.

Principal activities

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

Results and dividends

The results for the year are set out on page 12.

Ordinary dividends were paid amounting to £520,000. The directors do not recommend payment of a further dividend.

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

(Resigned 5 March 2021)

Paedar O'Reilly

David Foreman

Daniel Archer

Auditor

The auditor, Saffery Champness LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Energy and carbon report

As the company has not consumed more than 40,000 kWh of energy in this reporting period, it qualifies as a low energy user under these regulations and is not required to report on its emissions, energy consumption or energy efficiency activities.

Challenge Recruitment Group Limited

Directors' report (continued) For the year ended 31 March 2021

Statement of directors' responsibilities

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.

Disclosure in the strategic report

The company has chosen in accordance with Companies Act 2006, s. 414C(11) to set out in the company's strategic report information required by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7 to be contained in the directors' report. It has done so in respect of financial instruments and future developments.

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

23 November 2021

Challenge Recruitment Group Limited

Independent auditor's report

To the members 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 2021 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 significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 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 2021 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Challenge Recruitment Group Limited

Independent auditor's report (continued)

To the members 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report 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 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 members 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud are detailed below.

Identifying and assessing risks related to irregularities:

We assessed the susceptibility of the company's financial statements to material misstatement and how fraud might occur, including through discussions with the directors, discussions within our audit team planning meeting, updating our record of internal controls and ensuring these controls operated as intended. We evaluated possible incentives and opportunities for fraudulent manipulation of the financial statements. We identified laws and regulations that are of significance in the context of the company by discussions with directors and by updating our understanding of the sector in which the company operates.

Laws and regulations of direct significance in the context of the company include The Companies Act 2006 and UK Tax legislation.

Audit response to risks identified:

We considered the extent of compliance with these laws and regulations as part of our audit procedures on the related financial statement items including a review of financial statement disclosures. We reviewed the company's records of breaches of laws and regulations, minutes of meetings and correspondence with relevant authorities to identify potential material misstatements arising. We discussed the company's policies and procedures for compliance with laws and regulations with members of management responsible for compliance.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Challenge Recruitment Group Limited

Independent auditor's report (continued)

To the members of Challenge Recruitment Group Limited

Use of our report

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

Simon Kite BSc FCA (Senior Statutory Auditor)

For and on behalf of Saffery Champness LLP

25 November 2021

Chartered Accountants

Statutory Auditors

Trinity
16 John Dalton Street
Manchester
M2 6HY

Challenge Recruitment Group Limited

**Statement of comprehensive income
For the year ended 31 March 2021**

		2021	2020
	Notes	£	£
Administrative expenses		(393)	(118)
Interest receivable and similar income	5	870,000	850,000
Interest payable and similar expenses	6	(345,740)	(208,606)
Profit before taxation		<u>523,867</u>	<u>641,276</u>
Tax on profit	7	-	-
Profit for the financial year		<u><u>523,867</u></u>	<u><u>641,276</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 2021

		2021		2020	
	Notes	£	£	£	£
Fixed assets					
Investments	9		19,059,369		21,012,834
Current assets					
Debtors	11	15,195		5,199	
Cash at bank and in hand		12,340		2,323	
		<u>27,535</u>		<u>7,522</u>	
Creditors: amounts falling due within one year	12	<u>(14,996,044)</u>		<u>(15,308,568)</u>	
Net current liabilities			<u>(14,968,509)</u>		<u>(15,301,046)</u>
Total assets less current liabilities			4,090,860		5,711,788
Creditors: amounts falling due after more than one year	13		<u>(4,029,465)</u>		<u>(5,654,260)</u>
Net assets			<u>61,395</u>		<u>57,528</u>
Capital and reserves					
Called up share capital	15		100		100
Share premium account	16		43,902		43,902
Profit and loss reserves	17		17,393		13,526
Total equity			<u>61,395</u>		<u>57,528</u>

The financial statements were approved by the board of directors and authorised for issue on 23 November 2021 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 2021**

	Share capital	Share premium premium account	Profit and loss reserves	Total
Notes	£	£	£	£
Balance at 1 April 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
Year ended 31 March 2021:				
Profit and total comprehensive income for the year	-	-	523,867	523,867
Dividends	8	-	(520,000)	(520,000)
Balance at 31 March 2021	100	43,902	17,393	61,395

Challenge Recruitment Group Limited

Notes to the financial statements For the year ended 31 March 2021

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 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.

Challenge Recruitment Group Limited

Notes to the financial statements (continued)

For the year ended 31 March 2021

1 Accounting policies (continued)

1.2 Going concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

At 31 March 2021, the company had net assets of £61k (2020: £58k). The company recorded a net profit for the year ended 31 March 2021 of £524k (2020: £641k).

Although the company recorded net current liabilities at 31 March 2021 amounting to £15.0m (2020: £15.3m) this has arisen as a result of the financing of the acquisitions in the prior year. The repayments of the financing will be funded by the profits of the group.

The Directors have prepared cash flow forecasts for the group covering a period of at least twelve months from the date of approval of these financial statements. Applying reasonable forecasting assumptions around revenue and profitability, operating cash conversion and the like, all of which are consistent with or more prudent than historically recorded results (including those recorded throughout the global COVID-19 pandemic), the Directors' forecasts indicate that the group will generate sufficient liquidity to continue in operation.

The company has various financing facilities in place. In addition to indicating that all payments falling due under the terms of such facilities will be met in full over a period of at least twelve months from the date of approval of these financial statements, the aforementioned cash flow forecasts also indicate that all financial covenants associated with such facilities will be satisfied.

The company's trading subsidiaries finance trade growth principally through the use of an invoice finance facility. The group recently requested, and received, a significant increase in the facility limit and the Directors anticipate that the company will continue to benefit from the lender's support.

As a result of the above factors, the Directors consider that the company will continue to have sufficient funds to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements, and have therefore prepared the financial statements on a going concern basis.

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.

Challenge Recruitment Group Limited

Notes to the financial statements (continued)

For the year ended 31 March 2021

1 Accounting policies (continued)

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.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Challenge Recruitment Group Limited

Notes to the financial statements (continued)

For the year ended 31 March 2021

1 Accounting policies (continued)

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

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.

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.

Other financial liabilities

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

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.

Challenge Recruitment Group Limited

Notes to the financial statements (continued)

For the year ended 31 March 2021

1 Accounting policies (continued)

1.7 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation in the period are included in profit or loss.

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.

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.

Challenge Recruitment Group Limited

Notes to the financial statements (continued)

For the year ended 31 March 2021

4 Employees

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

	2021	2020
	Number	Number
Total	-	-

5 Interest receivable and similar income

	2021	2020
	£	£
Income from fixed asset investments		
Income from shares in group undertakings	870,000	850,000

6 Interest payable and similar expenses

	2021	2020
	£	£
Interest on bank overdrafts and loans	345,740	-
Other interest on financial liabilities	-	208,606

7 Taxation

Challenge Recruitment Group Limited

Notes to the financial statements (continued)

For the year ended 31 March 2021

7 Taxation (continued)

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:

	2021	2020
	£	£
Profit before taxation	523,867	641,276
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%)	99,535	121,842
Group relief	65,765	39,658
Dividend income	(165,300)	(161,500)
Taxation charge for the year	-	-

The main rate of corporation tax for the year ended 31 March 2021 was 19% and will remain in force until 31 March 2023.

At Budget 2021 the government announced that from 1 April 2023 the rate of corporation tax will be 25% for companies with annual profits over £250,000. For companies with annual profits below £50,000 the rate will remain at 19%. Marginal relief provisions will also be introduced so that, where a company's profits fall between the lower (£50,000) and upper (£250,000) limits, it will be able to claim an amount of marginal relief that bridges the gap between the lower and upper limits providing a gradual increase in the corporation tax rate.

8 Dividends

	2021	2020
	£	£
Final paid	520,000	-
Interim paid	-	627,750
	520,000	627,750

9 Fixed asset investments

		2021	2020
	Notes	£	£
Investments in subsidiaries	10	19,059,369	21,012,834

Challenge Recruitment Group Limited

Notes to the financial statements (continued)

For the year ended 31 March 2021

9 Fixed asset investments (continued)

Movements in fixed asset investments

	Shares in group undertakings
	£
Cost or valuation	
At 1 April 2020	21,012,834
Reversal of contingent consideration	(1,953,465)
	<hr/>
At 31 March 2021	19,059,369
	<hr/>
Carrying amount	
At 31 March 2021	19,059,369
	<hr/> <hr/>
At 31 March 2020	21,012,834
	<hr/> <hr/>

Challenge Recruitment Group Limited

Notes to the financial statements (continued)

For the year ended 31 March 2021

10 Subsidiaries

Details of the company's subsidiaries at 31 March 2021 are as follows:

Name of undertaking	Registered office	Nature of business	Class of share held	% Held	
				Direct	Indirect
Challenge Logistics Limited	1	Dormant	Ordinary	0	100.00
Challenge Transport and Distribution Limited	1	Traction services	Ordinary	100.00	0
Deployment Limited	2	Recruitment services	Ordinary	100.00	0
Deployment Services Limited	2	Recruitment services	Ordinary	0	100.00
Firststep Recruitment Solutions Limited	1	Recruitment services	Ordinary	100.00	0
Phoenix Training Services (Midlands) Limited	1	Provision of training courses	Ordinary	100.00	0
The Recruitment Shed Limited	1	Recruitment services	Ordinary	100.00	0
NLGordon Limited	3	Holding company	Ordinary	100.00	0
TRG Logistics Ltd	3	Recruitment services	Ordinary	0	100.00

Registered Office addresses:

- 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.

11 Debtors

	2021	2020
Amounts falling due within one year:	£	£
Other debtors	5,195	5,199
Prepayments and accrued income	10,000	-
	<u>15,195</u>	<u>5,199</u>

Challenge Recruitment Group Limited

Notes to the financial statements (continued)

For the year ended 31 March 2021

12 Creditors: amounts falling due within one year

		2021	2020
	Notes	£	£
Bank loans	14	1,987,026	2,345,740
Amounts owed to group undertakings		10,899,086	8,068,360
Other creditors		2,083,999	4,894,468
Accruals and deferred income		25,933	-
		<u>14,996,044</u>	<u>15,308,568</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.

13 Creditors: amounts falling due after more than one year

		2021	2020
	Notes	£	£
Bank loans and overdrafts	14	4,029,465	5,654,260
		<u>4,029,465</u>	<u>5,654,260</u>

14 Loans and overdrafts

		2021	2020
		£	£
Bank loans		6,016,491	8,000,000
		<u>6,016,491</u>	<u>8,000,000</u>
Payable within one year		1,987,026	2,345,740
Payable after one year		4,029,465	5,654,260
		<u>1,987,026</u>	<u>2,345,740</u>
		<u>4,029,465</u>	<u>5,654,260</u>

Challenge Recruitment Group Limited

Notes to the financial statements (continued)

For the year ended 31 March 2021

14 Loans and overdrafts (continued)

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

	2021	2020	2021	2020
	Number	Number	£	£
Ordinary share capital Issued and fully paid				
Ordinary shares of £1 each	100	100	100	100
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

16 Share premium account

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

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:

	2021	2020
	£	£
Amounts due from related parties		
Entities related to the shareholders	5,195	5,195
	<u> </u>	<u> </u>

Challenge Recruitment Group Limited

Notes to the financial statements (continued)

For the year ended 31 March 2021

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.

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.