

Gattaca plc
Interim Results for the six months ended 31 January 2018

Gattaca plc (“Gattaca” or the “Group”), the specialist Engineering and Technology (IT & Telecoms) recruitment solutions business, today announces its Interim Results for the six months ended 31 January 2018.

Financial Highlights

	2018 H1		2017 H1		Change	
	Statutory	Underlying ²	Statutory	Underlying ²	Statutory	Underlying ²
	£m	£m	£m	£m	%	%
Revenue	323.3	323.3	304.2	329.1	+7%	-2%
Net Fee Income (NFI) ¹	39.8	39.8	35.4	39.1	+12%	+2%
(Loss)/profit from operations	(11.5)	7.7	5.5	8.9		-13%
(Loss)/profit before tax	(12.7)	6.9	5.2	8.3		-17%
Basic earnings per share	(41.3)p	14.7p	10.7p	19.6p	NA	-25%
Diluted earnings per share	(40.6)p	14.5p	10.5p	19.1p	NA	-24%
Interim dividend	3.00p		6.00p		-50%	
Net debt at end of period	£36.2m		£27.9m		-£8.3m	

The following footnotes apply, unless where otherwise indicated, throughout these Interim Results:

¹ NFI is calculated as revenue less contractor payroll costs

² Underlying results include the results for RSL as if it had been a fully owned subsidiary in 2017 H1, exclude the trading results and net proceeds of divested businesses (2018: £0.4m; 2017: £nil), amortisation of acquired intangibles (2018: £1.6m; 2017: £1.4m), impairment of acquired intangibles (2018: £17.1m; 2017: £nil), non-underlying costs (2018: £0.1m; 2017: £1.1m), exchange gains and losses from revaluation of foreign assets and liabilities (2018: £0.4m loss; 2017: £0.3m gain) and is presented on a constant currency basis.

Group performance*

- Group NFI grew 12% on a statutory basis, with underlying growth in group NFI of 2%
- UK Engineering NFI grew 3% on prior year
 - Engineering technology +24%; Automotive +15%; RSL -13% and General Engineering -11%
 - Growth in both contract and permanent
- UK Technology NFI declined 4% on prior year
 - IT +3%, including strong performance in Development (+50%) and Cloud and Leadership (+28%), offset by Public Sector and ERP (-33%)
 - Telecoms declined by 19%
- International NFI grew 5% on prior year, driven by strong performance in the Americas (+30%), offset by a fall in Other International of 13%
- Underlying overheads 6% higher reflecting investment in UK Sales (£1.3m higher than prior year) and US (£0.7m higher)
 - Actions in place to abate the rate of increase in the second half
- Continued underperformance of Technology has resulted in a non-cash impairment of £17.1m in the period, in respect of goodwill and other intangible assets capitalised with the Networkers acquisition
- Interim dividend of 3.0 pence (2017: 6.0 pence), in line with the resetting of dividend policy announced on 7 February 2018. The dividend policy targets a pay-out of 50% of PAT through the cycle, subject to a sustained reduction in net debt from the 2019 financial year onwards

*All performance commentary reflects underlying performance, including treating Resourcing Solutions Limited as if it had been owned throughout 2017, and on a constant currency basis

Other highlights

- Board focused on the following key areas to both stabilise underperforming parts of the business and ensure that the Group can better execute its strategy:
 - Review of International footprint and net profitability of key customers
 - Improved integration of operations across the Group
 - Repositioning of the Telecoms business

- Delivering the current phase of cost savings
- Following the resignation of Brian Wilkinson as CEO in February interim leadership entrusted to Keith Lewis (COO) and Salar Farzad (CFO)
 - A full search to identify a CEO has commenced and will consider both internal and external candidates

Outlook

Our business is going through a period of significant change, in particular in UK Technology and in some International operations outside of the Americas, where we do not have critical mass. To counteract this we have instigated a program to reduce the cost base of the business within the current financial year and beyond.

In February and March the business broadly traded in line with the Board's expectations. However, the changes being implemented in the Technology division in the coming months, alongside the economic challenges facing some of our sectors and territories make the backdrop to our full year expectations, which have a final quarter weighting, more challenging than at the time of the trading update of 7 February 2018, with the consequence that the Board now expects underlying profit before tax for the full year to be approximately 15% below its previous expectations.

Commenting on the results, Patrick Shanley, Chairman of the Group said:

"Gattaca delivered an improvement in NFI in H1, and it is pleasing to see our core UK Engineering and IT businesses delivering growth and our International operations in the Americas continuing to perform well. However, the continued underperformance in Telecoms is disappointing and actions are being taken to address this.

"The Board is focussed on ensuring the Group can better execute its strategy, delivering sustainable and profitable growth in segments and markets which are scalable. We have undertaken a number of actions to improve our underlying performance; albeit at a time when the UK recruitment market continues to be challenging. We will continue working hard to strengthen the Group and build further on its solid foundations."

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Strategic Focus

The Board believes the core parts of our strategy, which includes profitable international diversification and increasing activity in more innovative staffing models, remains sound, as does our hub and spoke model (low number of high density principal offices with small satellite sales offices). This structure has enabled Gattaca to deliver superior conversion rates over time.

However, we must better execute our strategy, especially:

- Ensuring our international presence is in markets which offer scalability with a clear route to sustainable, material profitability
- Implementing delivery models tailored to the economics of differing business lines and more proactively monitoring individual customer profitability
- Greater rigour around sales performance management
- Targeting central support costs with more precision to support business units and activities with the greatest potential to deliver profitable growth in the near to medium term

In February we commenced a review seeking to achieve these aims better and faster than had been achieved to date. This entailed a reassessment of our international foot-print, restructuring and refocusing sales operations in Telecoms, and greater centralisation and simplification of support services.

At the end of January we closed our sales office in Germany. Whilst this market had potential, we did not have sufficient scale there and we believe much better returns can be delivered by directing resources to other markets, particularly the Americas which is achieving excellent results.

Over the coming nine months we will transfer our support activities (some 28 positions) from Bromley, Kent to our central Whiteley, Hampshire hub and have scaled back resources in Marketing and Human Resources, redirecting the efforts to better support activities that much more directly drive profits in the short and medium term. An example of this is a more structured approach to the investment in our Primary Business Systems project, which will provide global front office CRM and operational systems as well as a middle office pay, bill and credit control solutions. Once these systems are operational we expect to create additional efficiencies in transactional areas.

Profitability levels for specific customers are also under closer review, in particular where we are incurring non-recoverable withholding tax.

Whilst we look to contain and reduce costs as an ongoing process, we continue to invest in both Sales and Support functions where we believe that investment will drive profitable growth in the near term.

Operational Performance*

UK Engineering

Underlying NFI	2018 H1	2017 H1	Change	Change CC
	£'m	£'m	%	%
Contract	18.8	18.2	+3%	+3%
Permanent	5.4	5.3	+2%	+2%
Total	<u>24.2</u>	<u>23.5</u>	<u>+3%</u>	<u>+3%</u>

UK Engineering returned to growth with underlying NFI up 3% on 2017 H1.

Engineering Technology was up 24% due to a 'convergence' of the decreasing gap between traditional engineering and IT skills primarily created by the accelerating global demand for connectivity. The automotive industry in particular is going through one of its most significant landscape changes in decades with the development of electric vehicles, the reality of driverless vehicles and ever-increasing consumer demand for in car connectivity.

It is not just the Automotive element of Engineering Technology that is delivering growth. Industry 4.0, a concept launched in Germany 10 years ago and driven by connectivity, is being viewed as the 4th industrial revolution - the concept of smart and intelligent manufacturing that encapsulates automation technology, communication, dynamic design and cyber security.

Smart Cities has also taken the Engineering Technology Team into the Infrastructure sector. This is happening through integration of digitalization in infrastructures which are providing the platform for smarter forms of urban transport, more efficient ways to light and heat buildings and more controlled and efficient ways to deliver and monitor utility services.

Engineering Technology's growth is complemented by our traditional design and manufacturing Automotive sector which grew NFI 15% in the period. Within our current verticals, we are particularly strong within body, trim, electrical and mechanical markets. The product development of driverless cars, electric vehicles and lightweight solutions has seen us change our focus in these verticals over the past two years to service the rapidly changing market. With that strategic direction in place and our focus on productivity and quality the sector has performed well in positive market conditions.

Alderwood (our training brand) and Barclay Meade (professional services) have performed well, up 35% and 15% respectively. Alderwood is benefiting from the Government's plans to increase apprenticeships in the UK. Overseas workload is strong as training and education remains a high-profile topic throughout the globe. Barclay Meade has a clear and structured business plan to focus mainly on our existing engineering clients, which has served it well and produced a consistent and solid platform. With that base layer in place it has been able to focus business development activity on high profile non-traditional clients such as Sky and Computershare.

NFI at RSL, our focused site-based rail team, was down 13%, impacted by the bidding, award and uncertainty of the HS2 project. The Rail industry and its supply chain has been affected by a significant overspend in Control Period 5 (5 years to March 2019) and the delay in HS2; as well as delayed investment into on-going maintenance projects. In the first calendar quarter of this year, we have noted a welcome increase on the prior quarter in both our rail design and site business units.

General Engineering's NFI was down 11% as a result of a downturn in business from three larger South Coast manufacturing clients which has affected permanent NFI. This business has a higher mix of permanent income and consequently is more 'lumpy'.

Whilst still relatively small, we are very pleased to see our new Gattaca Projects business grow 137% on 2017 H1. This business is at the leading edge of how the interaction between employers, the workforce and staffing solutions companies such as Gattaca is evolving through products such as Statement of Work projects.

UK Technology

Underlying NFI	2018 H1	2017 H1	Change	Change CC
	£'m	£'m	%	%
Contract	6.4	7.5	-15%	-15%
Permanent	2.1	1.3	+62%	+62%
Total	8.5	8.8	-4%	-4%

UK Technology's NFI was down 4% on H1 2017 driven by a 19% reduction in Telecoms, offset by a 3% improvement in IT.

Telecoms continues to be a challenging area for the Group and has suffered from pricing pressures from key customers, combined with a reduction in volume. It is also the sector which has a prevalence of non-recoverable withholding tax issues.

Since the period end we have changed the leadership structure for the UK Technology business with a new hire as head of Telecoms who has already restructured his team; and internal appointments for head of Bromley IT and head of Whiteley IT. All three will report directly to our COO and this structure will facilitate greater engagement between senior executive management and these businesses. We are changing the focus of the Telco business to reduce its dependency on vendor business, the primary driver of the decline in the business unit. This includes monitoring the profitability of key contracts, particularly where those contracts generate significant non-recoverable withholding tax, and taking action accordingly.

The key drivers behind the growth in IT include a 50% increase in Development driven by an increase in contract demand in this area as well as 28% growth across Cloud and Leadership where we increased investment; tempered by reductions in Security and ERP.

Total International

Underlying NFI	2018 H1	2017 H1	Change	Change CC
	£'m	£'m	%	%
Contract	3.7	4.0	-10%	-7%
Permanent	3.4	2.8	+20%	+25%
Total	7.1	6.8	+3%	+5%

As our Americas region is currently a significant driver of our International Segment, commentary is provided below on that specific region as well as the rest of the Segment.

In terms of the mix between contract and permanent NFI in our International business, the reduction in contract income is driven by pricing reductions at a key customer which impacted China, Malaysia and South Africa. At the same time much of the growth in the US is driven by permanent income.

Americas

Underlying NFI	2018 H1	2017 H1	Change	Change CC
	£'m	£'m	%	%
Contract	1.8	1.7	+6%	+10%
Permanent	1.9	1.2	+58%	+61%
Total	3.7	2.9	+28%	+30%

Our investment in our Americas (Canada, Mexico & United States) operation continues to pay off with 2018 H1 NFI up 30% on 2017 H1. There has been great progress with personnel, structure and target markets.

The Americas leadership team has been bolstered by the addition of an experienced EVP of Sales Operations under our regional President. In addition a Regional Sales Director role was created to capture market share through cross selling and regional collaboration. The position has already produced three RPO opportunities and multiple client advancements across the region. We are currently looking to identify the next Regional Sales Director to drive the initiative forward while aligning the region with the global business.

We have aligned our hub and spoke model for growth whilst maintaining efficiencies in our cost model. Delivery centres are being developed in the US and Mexico to support regional sales offices as we expand. Two examples of this are the recent expansion of sales efforts into Austin and Houston in Texas. The former to capture the high-tech IT boom and the latter to launch the Matchtech brand in the energy and engineering markets. Both have already seen billing success and are expected to grow.

Other International

Underlying NFI	2018 H1	2017 H1	Change	Change CC
	£'m	£'m	%	%
Contract	1.9	2.3	-22%	-19%
Permanent	1.5	1.6	-7%	-3%
Total	3.4	3.9	-15%	-13%

Asia's NFI was down 14%, impacted by the closure of our Singapore office which was a 'lumpy' high value low volume Permanent business.

South Africa's NFI was down 25% following pricing changes at the very end of the 2017 financial year from a key customer and the loss of staff during 2017.

As noted above, at the end of January, we made the decision to close down our Munich, Germany sales office. The results of this operation are shown in our accounts as a discontinued business.

Global Contractor and Permanent mix

There has been a noticeable shift towards Permanent Fees; 2018 H1: 28% (2017 H1: 24%). In addition to the factors noted under international this shift is partly driven by the market and partly by our new Technology Sales business unit which is Permanent focused and our new, small Madrid, Spain presence which is also Permanent focussed.

**All operational performance commentary after further adjusting underlying results to treat Resourcing Solutions Limited as if it had been owned throughout 2017, and on a constant currency basis*

Board changes

Following Brian Wilkinson's departure as CEO, the Group is currently co-led by Keith Lewis (COO) and Salar Farzad (CFO). The COO leads all Sales activity and the CFO leads all support services including Investor Relations. A full search to identify a CEO has commenced and will consider both internal and external candidates.

Keith is highly experienced in recruitment having spent 29 years in the industry, including 25 years with Gattaca. He has been COO since September 2012.

Salar joined the business and Board in June 2017 having held leadership roles in a number of well-known people based organisations (including Zodiak Media, Macmillan Science & Education, Viacom, EMI and Price Waterhouse) navigating significant change.

The Board believes Keith and Salar are best placed, together with the rest of the highly experienced senior management team, to deliver on the Group's immediate performance objectives.

Chairman Patrick Shanley remains non-Executive but has increased the amount of time he spends with the Company to support Keith and Salar.

After nearly 12 years with Gattaca, Ric Piper, Senior Independent Director and Chair of the Audit Committee will be retiring from the Board at the end of July 2018 and will be replaced by David Lawther as Chair of Audit who will join the Board from 1st June. Until 2016 David was Chief Executive of Interior Services Group (SIG) Plc having previously served as Finance Director. Prior to this he also served as Finance Director for Wilson Connolly Plc and held senior roles at John Mowlem & Co Plc. He is currently Chairman of Syntegra Consulting Ltd and a non-executive director of Ensemble Infrastructure India Ltd.

Roger Goodman, who was Chairman of Networkers Plc and joined the Gattaca Board in April 2015 following Gattaca's acquisition of that business, will also be stepping down from our Board at the end of July 2018. At this time the Board does not intend to appoint a replacement for Roger.

Chairman Patrick Shanley, and the rest of the Board thank Ric and Roger for their significant contributions to Gattaca and welcomes David to the Board.

People

Gattaca's permanent FTE headcount at 31 January 2018 was 870, 14 lower than 31 January 2017 on a pro-forma basis. The ratio of sales to support staff was 73%, below our target of 75%.

Financial Overview

Revenue for the period at £323m was 7% above 2017 H1 (£304m).

NFI of £39.8m represented a 12% increase on a statutory basis, and a 2% (£0.7m) increase on an underlying basis, compared to 2017 H1.

Underlying EBITA for the period at £7.7m is 13% lower than 2017 H1 on a pro-forma constant currency basis. This reflects the growth in NFI being more than offset by higher administrative costs, which are explained in more detail below.

Excluding the impact of the £17.1m intangibles impairment the effective tax rate of the group was 37.8% (2017 H1 35.5%), with the growth attributable to a lower credit in relation to expenses not chargeable for tax. Our high effective tax rate continues to be driven by non-recoverable withholding tax, principally in the Telecoms business, and notwithstanding the fact that we increase margins charged to customers where this applies, these contracts are currently being reviewed.

Adjusted basic earnings per were (41.3) p (2017 H1 10.7p) and adjusted diluted earnings per share were (40.6)p (2017 H1 10.5p).

Administrative Expenses

Investments in FY15, 16 & 17 in both Sales and Support staff were made in anticipation of NFI growing significantly ahead of the market. Whilst the business has returned to growth in H1, the rate of improvement particularly in the UK is below the level anticipated. The annualised impact of investments made during FY 2017 and early FY 2018 would have substantially increased our cost base even further for the whole of FY 2018.

Having reviewed our execution effectiveness and full year expectations since February, we have taken significant actions to rationalise that cost base.

These actions will abate the velocity of cost increase and bring greater balance between costs and expected short term NFI. Nevertheless the H1 cost variance on prior year is likely to be duplicated in H2 at a similar level to the H1 variance, albeit there will be some additional annualised benefits in 2019.

H1 Administrative Expenses £'m	2018 £m	2017 £m	Change £m
As reported	51.2	29.9	(21.3)
Non-underlying Items	(0.5)	(1.1)	(0.6)
Amortisation of intangibles	(1.6)	(1.4)	0.2
Impairment of intangibles	(17.1)	-	(17.7)
Impact of full year consolidation of RSL	-	2.9	2.9
Underlying Administrative expenses	32.0	30.3	(1.7)
<i>% of Underlying pro-forma NFI</i>	80%	78%	

Investment in UK and Central Sales			(1.3)
Investment in US Office			(0.7)
Reduction Asia and MEA			0.7
Group Support staff costs			(0.2)
London Office			(0.1)
Other			(0.1)
			<u>(1.7)</u>

Non-underlying costs

The principle elements of non-underlying costs are as follows:

	£'m
Restructuring and Termination costs for directors and staff	0.1
Costs related to Germany discontinued operation	0.4
Total	<u>0.5</u>

Intangibles

Given the performance of our Technology business, we have reviewed our intangible assets and the carrying value of certain investments in our holding company accounts and as a result we have impaired these intangibles by £17.1m in the Group accounts.

Financing Costs

Net financing costs of £1.2m (2017 H1 £0.3m) were £0.9m higher primarily due to a £0.4m foreign exchange impact on translation of foreign currency balances within local entities and the remainder due to higher debt balances driven by the RSL acquisition in February 2017.

Debtors, cashflow, net debt and financing

A review of the Group's future financing needs led to the resetting of the Group's dividend policy which was announced on 7 February 2018.

In March we concluded new financing arrangements to better match our needs with a reduction in total excess facilities and to make greater use of our lower cost Invoice Financing facilities within the overall financing mix. These new arrangements also provide us greater flexibility on covenants. Our facilities continue to October 2020 and comprise a Revolving Credit Facility of £20m (previously £30m) and an unchanged Invoice Financing Facility of £75m. In return for the increased flexibility on covenants, we have agreed to a temporary increase of 50 basis points in addition to each of our main interest rates.

After dividend payments in the period of £5.5m and the seasonal benefits routinely seen in H1, net debt at 31 January 2018 was £36.2m (31 January 2017: £27.9m, 31 July 2017: £40.3m).

Capital expenditure in the period of £1.4m (2017 H1 £0.9m) increased primarily due to the refurbishment of our Whiteley offices.

Our Days Sales Outstanding at 53 days has slightly improved from 31 July 2017 (54 days). This improvement represents approximately £2m in working capital. Total working capital improvement was £7.6m and the remainder of the improvement was due to lower trade receivables due to seasonality of Christmas period billings. We have scope for improvement, especially in our international operations, in particular in North America.

Interest paid at £0.7m was £0.2m higher than 2017 H1. This was driven by higher LIBOR rates and a higher average debt during the period compared to 2017 H1 driven by the RSL acquisition.

Our insurance claim for Carillion related receivables has been submitted and is progressing. We expect to receive £0.7m from the insurers. Excluding this and relevant provisions, we have taken a net charge of £0.2m in our half year accounts which is slightly higher than our estimate of £0.1m which we gave on 17 January 2018.

The net increase in cash and cash equivalents was £4.2m. This was after a £1.5m charge for the effects of exchange rates on foreign currency balances within local entities.

Dividend

As announced on 7 February 2018 and as noted above, the Group will be adjusting its dividends to provide a better balance between debt reduction and continuing to offer strong returns to shareholders. Our objective is to achieve a through-the-cycle dividend pay-out of approximately 50% of profits after tax, subject to reductions in net debt of at least £3m per year, these reductions starting from the 2019 financial year onwards.

The Board has today declared an interim dividend of 3.0 pence per share (2016: 6.00 pence) to be paid on 22 June 2018 to shareholders on the register at 25 May 2018.

Auditors

Following a competitive tender process, PwC were appointed as Auditors in March. The Board would like to thank KPMG for its contribution as the Group's auditors since their appointment in 2011 and also the other firms who took part in the tender. We look forward to working with PwC in the future.

Risks

The Board considers strategic, financial and operational risks and identifies actions to mitigate those risks. Key risks and their mitigation were disclosed on pages 18 and 19 of the Annual Report for the year ended 31 July 2017.

Notwithstanding that no new key risks have been identified in the period, we continue to manage a number of potential risks and uncertainties - many of which are common to other similar businesses - which could have a material impact on our longer-term performance.

In particular the Board is mindful that the changes to staff, structures, systems and processes resulting from the resetting of the business by current executive management as well as pre-existing initiatives which will improve our medium and long-term profitability and capability could cause some disruption in the short term.

Outlook

Our business is going through a period of significant change, in particular in UK Technology and in some International operations outside of the Americas, where we do not have critical mass. To counteract this we have instigated a program to reduce the cost base of the business within the current financial year and beyond.

In February and March the business broadly traded in line with the Board's expectations. However, the changes being implemented in the Technology division in the coming months, alongside the economic challenges facing some of our sectors and territories make the backdrop to our full year expectations, which have a final quarter weighting more challenging than at the time of the trading update of 7 February 2018 with the consequence that the Board now expects underlying profit before tax for the full year to be approximately 15% below its previous expectations.

CONDENSED CONSOLIDATED INCOME STATEMENT

for the period ended 31 January 2018

	Note	6 months to 31/01/18 <i>unaudited</i> £'000	6 months to 31/01/17 <i>unaudited</i> £'000	12 months to 31/07/17 <i>audited</i> £'000
Revenue	2	323,298	304,211	642,365
Cost of Sales		(283,532)	(268,843)	(567,657)
GROSS PROFIT	2	39,766	35,368	74,708
Administrative expenses		(51,251)	(29,921)	(62,004)
(LOSS)/PROFIT FROM OPERATIONS		(11,485)	5,447	12,704
<i>Profit from operations before amortisation and impairment of acquired intangibles and non-underlying costs</i>	2	<i>7,728</i>	7,979	17,388
<i>Amortisation and impairment of acquired intangibles</i>	2	<i>(18,737)</i>	(1,432)	(3,074)
<i>Non-underlying costs included within administrative expenses</i>	2	<i>(476)</i>	(1,100)	(1,610)
Finance income	3	25	278	44
Finance costs	4	(1,222)	(559)	(1,240)
(LOSS)/PROFIT BEFORE TAX		(12,682)	5,166	11,508
Taxation	5	(480)	(1,833)	(4,160)
(LOSS)/PROFIT FOR THE PERIOD		(13,162)	3,333	7,348
Attributable to:				
Equity holders of the parent		(13,381)	3,333	7,176
Non-controlling interests		219	-	172
		(13,162)	3,333	7,348

All of the activities of the Group are classed as continuing.

EARNINGS PER ORDINARY SHARE

		pence	pence	pence
Basic	7	(41.3)	10.7	23.4
Diluted	7	(40.6)	10.5	22.7

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period ended 31 January 2018

	6 months to 31/01/18 <i>unaudited</i> £'000	6 months to 31/01/17 <i>unaudited</i> £'000	12 months to 31/07/17 <i>audited</i> £'000
(LOSS)/PROFIT FOR THE PERIOD	(13,162)	3,333	7,348
OTHER COMPREHENSIVE INCOME			
Exchange differences on translating foreign operations	(1,008)	419	218
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD	(1,008)	419	218
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	(14,170)	3,752	7,566
Attributable to:			
Equity holders of the parent	(14,389)	3,752	7,394
Non-controlling interests	219	-	172
	(14,170)	3,752	7,566

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 January 2018

	Note	31/01/2018 <i>unaudited</i>	31/01/2017 <i>unaudited</i>	31/07/2017 <i>audited</i>
		£'000	£'000	£'000
ASSETS				
Non-Current Assets				
Intangible assets	8	33,059	47,059	51,802
Property, plant and equipment		3,420	1,532	2,504
Deferred tax assets		773	737	773
		37,252	49,328	55,079
Current Assets				
Trade and other receivables	9	103,523	100,587	114,997
Cash and cash equivalents		10,418	6,423	5,802
		113,941	107,010	120,799
TOTAL ASSETS		151,193	156,338	175,878
LIABILITIES				
Non-Current Liabilities				
Deferred tax liability		(2,565)	(3,597)	(3,914)
Provisions		(1,603)	(278)	(1,596)
Bank loans and overdrafts		(20,399)	(13,608)	(20,464)
		(24,567)	(17,483)	(25,974)
Current Liabilities				
Trade and other payables		(35,141)	(36,663)	(38,990)
Current tax liability		(255)	(1,004)	(586)
Bank loans and overdrafts		(26,199)	(20,760)	(25,626)
		(61,595)	(58,427)	(65,202)
TOTAL LIABILITIES		(86,162)	(75,910)	(91,176)
NET ASSETS		65,031	80,428	84,702
EQUITY				
Called-up equity share capital	10	322	316	318
Share premium account		8,706	8,696	8,704
Merger reserve		28,750	28,750	28,750
Share based payment reserve		1,051	2,526	1,415
Translation of foreign operations		25	1,234	1,033
Retained earnings		23,736	38,906	42,260
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT		62,590	80,428	82,480
Non-controlling interests		2,441	-	2,222
Total equity		65,031	80,428	84,702

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the period ended 31 January 2018

	6 months to 31/01/18 <i>unaudited</i> £'000	6 months to 31/01/17 <i>unaudited</i> £'000	12 months to 31/07/17 <i>audited</i> £'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit after taxation	(13,162)	3,333	7,348
Adjustments for:			
Depreciation, impairments and amortisation	19,259	1,901	3,970
Profit on disposal of property, plant and equipment	(7)	(12)	(9)
Interest income	(25)	(278)	(44)
Interest expense	1,222	559	1,240
Taxation expense recognised in profit and loss	480	1,833	4,160
Decrease/(increase) in trade and other receivables	11,474	224	(3,774)
Decrease in trade and other payables	(3,856)	(1,400)	(1,221)
Share based payment charge	73	548	774
Cash generated from operations	15,458	6,708	12,444
Interest paid	(710)	(522)	(1,145)
Income taxes paid	(2,280)	(2,931)	(6,034)
NET CASH FROM OPERATING ACTIVITIES	12,468	3,255	5,265
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment	(1,280)	(711)	(1,027)
Purchase of intangibles	(153)	(189)	(512)
Acquisitions net of cash received	-	-	(11,162)
Proceeds from sale of plant and equipment	35	39	76
Interest received	25	-	-
NET CASH USED IN INVESTING ACTIVITIES	(1,373)	(861)	(12,625)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	6	7	14
Drawdown of term loan	-	-	7,106
Finance costs paid	-	-	(250)
Dividends paid	(5,474)	(5,289)	(7,195)
NET CASH USED IN FINANCING ACTIVITIES	(5,468)	(5,282)	(325)
Effects of exchange rates on cash and cash equivalents	(1,452)	62	(695)
NET DECREASE IN CASH AND CASH EQUIVALENTS	4,175	(2,826)	(8,380)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	(19,891)	(11,511)	(11,511)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	(15,716)	(14,337)	(19,891)
CASH AND CASH EQUIVALENTS			
Cash	10,418	6,423	5,802
Bank overdrafts	-	(31)	-
Working capital facility used	(26,134)	(20,729)	(25,693)
CASH AND CASH EQUIVALENTS IN CASH FLOW STATEMENT	(15,716)	(14,337)	(19,891)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period ended 31 January 2018

	Share capital £'000	Share premium £'000	Merger reserve £'000	Share-based payment reserve £'000	Translation of foreign operations £'000	Retained earnings £'000	Non-controlling interests £'000	Total £'000
Balance at 1 August 2016	312	8,696	28,750	2,537	815	40,504	-	81,614
Profit for the period	-	-	-	-	-	3,333	-	3,333
Other comprehensive income	-	-	-	-	419	-	-	419
Total comprehensive income	-	-	-	-	419	3,333	-	3,752
Dividends paid in the period	-	-	-	-	-	(5,289)	-	(5,289)
Deferred tax movement re share options	-	-	-	-	-	(201)	-	(201)
IFRS 2 charge	-	-	-	548	-	-	-	548
IFRS 2 reserves transfer	-	-	-	(559)	-	559	-	-
Shares issued	4	-	-	-	-	-	-	4
Transactions with owners	4	-	-	(11)	-	(4,931)	-	(4,938)
Balance at 31 January 2017	316	8,696	28,750	2,526	1,234	38,906	-	80,428
Balance at 1 August 2016	312	8,696	28,750	2,537	815	40,504	-	81,614
Profit for the period	-	-	-	-	-	7,176	172	7,348
Other comprehensive income	-	-	-	-	218	-	-	218
Total comprehensive income	-	-	-	-	218	7,176	172	7,566
Dividends paid in the period	-	-	-	-	-	(7,195)	-	(7,195)
Deferred tax movement re share options	-	-	-	-	-	(121)	-	(121)
Deferred consideration	-	-	-	-	-	-	2,050	2,050
IFRS 2 charge	-	-	-	774	-	-	-	774
IFRS 2 reserves transfer	-	-	-	(1,896)	-	1,896	-	-
Shares issued	6	8	-	-	-	-	-	14
Transactions with owners	6	8	-	(1,122)	-	(5,420)	2,050	(4,478)
Balance at 31 July 2017	318	8,704	28,750	1,415	1,033	42,260	2,222	84,702

	Share capital £'000	Share premium £'000	Merger reserve £'000	Share-based payment reserve £'000	Translation of foreign operations £'000	Retained earnings £'000	Non-controlling interests £'000	Total £'000
Balance at 1 August 2017	318	8,704	28,750	1,415	1,033	42,260	2,222	84,702
(Loss)/profit for the period	-	-	-	-	-	(13,381)	219	13,162
Other comprehensive income	-	-	-	-	(1,008)	-	-	(1,008)
Total comprehensive income	-	-	-	-	(1,008)	(13,381)	219	(14,170)
Dividends paid in the period	-	-	-	-	-	(5,474)	-	(5,474)
Deferred tax movement re share options	-	-	-	-	-	(106)	-	(106)
IFRS 2 charge	-	-	-	73	-	-	-	73
IFRS 2 reserves transfer	-	-	-	(437)	-	437	-	-
Shares issued	4	2	-	-	-	-	-	6
Transactions with owners	4	2	-	(364)	-	(5,143)	-	(5,501)
Balance at 31 January 2018	322	8,706	28,750	1,051	25	23,736	2,441	65,031

Notes forming part of the financial statements

1 The Group and Company Significant Accounting Policies

i General Information

Gattaca plc is a human capital resources business dealing with contract and permanent recruitment in the private and public sectors. The Company is incorporated in the United Kingdom. The Group's address is: Gattaca plc, 1450 Parkway, Whiteley, Fareham PO15 7AF.

These financial statements were approved for issue on 18 April 2018.

ii Basis of Preparation of the Financial Statements

These interim condensed consolidated financial statements are for the six months ended 31 January 2018. They have been prepared in accordance with IAS 34 "Interim Financial Reporting". They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements for the year ended 31 July 2017. The comparative figures for the financial year ended 31 July 2017 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

These condensed consolidated interim financial statements ('the interim financial statements') have been prepared in accordance with the accounting policies set out below which are based on the recognition and measurement principles of IFRS in issue as adopted by the European Union (EU) and are effective at 31 July 2018 or are expected to be adopted and effective at 31 July 2017.

These financial statements have been prepared under the historical cost convention. The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these condensed interim financial statements. A summary of the principal accounting policies of the group are set out below.

iii Going Concern

The Directors have reviewed forecasts and budgets for the coming year, which have been drawn up with appropriate regard for the current macroeconomic environment and the particular circumstances in which the Group operates. These were prepared with reference to historical and current industry knowledge, taking future strategy of the Group into account.

As a result, at the time of approving the Financial Statements, the Directors consider that the Company and the Group have sufficient resources to continue in operational existence for the foreseeable future, and accordingly, that it is appropriate to adopt the going concern basis in the preparation of the Financial Statements. As with all business forecasts, the Directors cannot guarantee that the going concern basis will remain appropriate given the inherent uncertainty about future events.

iv New Standards and Interpretations

The accounting standards adopted are consistent with those of the previous financial year except as described below.

These following amendments to existing standards are applicable for the period ending 31 January 2018:

Standard		Effective date (Annual periods beginning on or after)
IAS 12	Deferred Tax	1 January 2017

The adoption of the above standards has had no material impact on the financial statements.

New Standards in Issue, Not Yet Effective

The following relevant standards and interpretations, which are new and yet to become mandatory, have not been applied in the Group financial statements:

Standard		Effective date (Annual periods beginning on or after)
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 2	Share-based Payment Transactions	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS improvements	Various	Various

The Board needs to assess the impact of the above new standards, however, based on the Group's current business model and accounting policies.

The Group does not intend to apply any of these pronouncements early.

v Basis of Consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to the Statement of Financial Position date. Subsidiaries are entities over which the Group has power to control the financial and operating policies so as to obtain benefits from their activities. The Group obtains and exercises control through voting rights.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the Group Statement of Financial Position at their fair values, which are also used as the bases for subsequent measurement in accordance with Group accounting policies.

Transactions between Group companies are eliminated on consolidation.

vi Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for services provided, excluding VAT and trade discounts. Revenue on temporary placements is recognised upon receipt of a client approved timesheet or equivalent. Revenue from permanent placements, which is based on a percentage of the candidate's remuneration package, is recognised when candidates commence employment, at which point it is probable that the economic benefits associated with the transaction will be transferred. Fees for the provision of engineering services are recognised on completion of work performed in accordance with customer contracts. Other fees are recognised on confirmation from the client committing to the agreement.

vii Non-underlying Items

Non-underlying items are items that are unusual because of their size, nature or incidence and are presented within the consolidated income statement but highlighted through separate disclosure. The Group's Directors consider that these items should be separately identified within the income statement to enable a true and fair understanding of the Group's results.

Items which are included within this category include:

- costs of acquisitions;
- integration costs following acquisitions;
- significant restructuring costs;
- other particularly significant or unusual items.

viii Property, Plant and Equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment.

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

Motor vehicles	25.0%	Reducing balance
Fixtures, Fittings and equipment	12.5% to 33.0%	Straight line
Leasehold Improvements	Over the period of the lease term	Straight line

ix Intangible Assets

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the fair value of the consideration given for a business over the Company's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill is stated at cost less accumulated impairment.

Goodwill is allocated to cash-generating units (CGUs) and is not amortised, but is tested at least annually for impairment. For the purpose of impairment testing, goodwill acquired in a business acquisition is allocated to each of the cash generating units, or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value

in use and fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Expenditure on internally generated goodwill, brands and intangibles is expensed in the Income Statement when incurred.

Customer relationships

Acquired customer relationships comprise principally of existing customer relationships which may give rise to future orders (customer relationships), and existing order books (backlog orders). Acquired customer relationships are recognised at fair value at the acquisition date and have a finite useful life. Amortisation of customer relationships is amortised in line with the expected cashflows. Acquired customer relationships are stated at cost less accumulated amortisation and impairment. Backlog orders are recognised at fair value at the acquisition date and amortised in line with the expected cash flows. Backlog orders are stated at cost less accumulated amortisation and impairment.

Trade names and trademarks

Trade names and trademarks have arisen on the consolidation of acquired businesses and are recognised at fair value at the acquisition date. Where trade names and trademarks are considered to have a finite useful life, amortisation is calculated using the straight line method to allocate the cost of trade names and trademarks over their estimated useful lives. Where trade names and trademarks are considered to have an indefinite useful life, they are not subject to amortisation; they are tested annually for impairment and when there are indications that the carrying value may not be recoverable, detailed within the impairment of non-financial assets section below. Trade names and trademarks are stated at cost less accumulated amortisation and impairment.

Other

Other intangible assets acquired by the Group that have a finite life useful life are measured at cost less accumulated amortisation and accumulated losses.

Amortisation of intangible assets is recognised in the income statement under administrative expenses. Provision is made against the carrying value of intangible assets where an impairment in value is deemed to have occurred. Impairment losses are recognised in the Income Statement under administrative expenses.

Software Licences

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised using the straight line method to allocate the cost of the software licences over their useful lives of between two and five years. Software licences are stated at cost less accumulated amortisation.

x Disposal of Assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the Income Statement.

xi Operating Lease Agreements

Rentals applicable to operating leases are charged against profits on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

xii Taxation

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the Statement of Financial Position date.

Deferred tax on temporary differences associated with shares in subsidiaries is not provided if these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity (such as share-based payments) in which case the related deferred tax is also charged or credited directly to equity.

xiii Pension Costs

The Company operates defined contribution pension schemes for employees. The assets of these schemes are held separately from those of the Company. The annual contributions payable are charged to the Income Statement as they accrue.

xiv Share-based Payments

The transitional arrangements of IFRS 1 have been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 August 2006. All share-based remuneration is ultimately recognised as an expense in the Income Statement with a corresponding credit to “share-based payment reserve”. All goods and services received in exchange for the grant of any share-based remuneration are measured at their fair values. Fair values of employee services are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting. Upon exercise of share options, proceeds received net of attributable transaction costs are credited to share capital and share premium.

The Company is the granting and settling entity in the group share-based payment arrangement where share options are granted to employees of its subsidiary companies. The Company recognises the share-based payment expense as an increase in the investment in subsidiary undertakings.

The Group operates a Share Incentive Plan (SIP) which is HMRC approved, and enables employees to purchase Company shares out of pre-tax salary. For each share purchased the Company grants an additional share at no cost to the employee. The expense in relation to these ‘free’ shares is recorded as employee remuneration and measured at fair value of the shares issued as at the date of grant.

xv Business Combinations Completed Prior to Date of Transition to IFRS

The Group has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to 1 August 2006. Accordingly the classification of the combination (merger) remains unchanged from that used under UK GAAP. Assets and liabilities are recognised as at the date of transition if they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement. Deferred tax is adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions.

xvi Financial Assets

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are recognised at fair value plus transaction costs.

In the Company financial statements, investment in the subsidiary Company is measured at cost, and provision made where an impairment value is deemed to have occurred.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are classified as loans and receivables. Loans and receivables are measured subsequent to initial recognition at amortised cost using effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the Income Statement.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset’s carrying amount and the present value of estimated future cash flows.

A financial asset is derecognised only where the contractual rights to cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

Trade receivables subject to the invoice discounting facility are recognised in the Statement of Financial Position until they are settled by the customer.

xvii Financial Liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument and comprise trade and other payables and bank loans. Financial liabilities are recorded initially at fair value, net of direct issue costs and are subsequently measured at amortised cost using the effective interest rate method.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

xviii Financial instruments

Financial instruments often consist of a combination of debt and equity and the Group has to decide how to attribute values to each. They are treated as equity only to the extent that they meet the following two conditions:

(i) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
(ii) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability, and where such an instrument takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance costs. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity

The Group uses financial instruments, in particular forward currency contracts to manage the financial risks associated with the Group's underlying business activities. The forward exchange contracts are used to hedge foreign currency exposures arising on forecast receipts and payments in foreign currencies. These forward contracts are revalued to the rates of exchange at the Statement of Financial Position date and any aggregate unrealised gains and losses arising on revaluation are included in other debtors or creditors. At maturity, or when the contract ceases to be a hedge, gains and losses are taken to the Income Statement. The Group does not undertake any trading activity in financial instruments.

Fair value hierarchy

The Group analyses financial instruments carried at a fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. directly from prices); and
- Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

xix Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, on demand deposits, and bank overdrafts.

xx Dividends

Dividend distributions payable to equity shareholders are included in "other short term financial liabilities" when the dividends are approved in the annual general meeting prior to the balance sheet date.

xxi Foreign Currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Statement of Financial Position date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the profit or loss in the period in which they arise.

The assets and liabilities in the financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the Statement of Financial Position date. Income and expenses are translated at the actual rate. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to "Translation of foreign operations" in equity. On disposal of a foreign operation the cumulative translation differences are transferred to the Income Statement as part of the gain or loss on disposal.

As permitted by IFRS 1, the balance on the cumulative translation adjustment on retranslation of subsidiaries' net assets has been set to zero at the date of transition to IFRS.

xxii Equity

Equity comprises the following:

“Share capital” represents the nominal value of equity shares.

“Share premium” represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

“Share based payment reserve” represents equity-settled share-based employee remuneration until such share options are exercised.

“Merger reserve” represents the equity balance arising on the merger of Matchtech Engineering and Matchmaker Personnel and to record the excess fair value above the nominal value of the consideration on the acquisition of Networkers International plc

“Translation of foreign operations” represents the foreign currency differences arising on translating foreign operations into the presentational currency of the Group.

“Retained earnings” represents retained profits.

xxiii Alternative Performance Measures

Alternative performance measures used within the Group’s Annual Report are explained within Note 25 to the Financial Statements.

xxiv Significant Accounting Estimates and Judgments

Estimates and assumptions concerning the future and judgments are made in the preparation of the financial statements. They affect the application of the Group’s accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

Accounting Estimates

The accounting estimates made which, in the opinion of the Directors, are critical in drawing up the financial statements are as follows:

Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the Statement of Financial Position date are discussed below. These are included for completeness, although it is the Directors’ view that none of these have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment Loss of Trade and Other Receivables

The Group’s policy for doubtful receivables is based on the on-going evaluation of the collectability and ageing analysis of the trade and other receivables and on management’s judgments. Considerable judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of the Group’s receivables were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss of trade and other receivables may be required. The carrying amounts of these assets are shown in note 9.

Intangibles

The Group determines whether goodwill and other intangible assets (including acquired intangibles) are impaired on an annual basis or otherwise when changes in events or situations indicate that the carrying value may not be recoverable. This requires an estimation of the recoverable amount of the cash generating unit to which the assets are allocated. Consideration is given to the future cash flows of each cash generating unit and the discount rate applied to calculate the present value of those cash flows.

Critical Accounting judgments

The directors consider that there no critical accounting judgments.

12 months to 31 July 2017

audited

All amounts in £'000	UK Engineering	UK Technology	International	Underlying	Non- underlying items	Amortisation of acquired intangibles	Group Total
Revenue	420,782	158,374	63,209	646,365	-	-	642,365
Gross profit	43,080	16,178	15,450	74,708	-	-	74,708
Operating contribution	23,758	7,061	5,619	36,438	-	-	36,438
Central overheads	(10,579)	(4,525)	(3,946)	(19,050)	(1,610)	(3,074)	(23,734)
Profit/(loss) from operations	13,179	2,536	1,673	17,388	(1,610)	(3,074)	12,704
Finance cost, net							(1,196)
Profit before tax							11,508
Depreciation and amortisation	588	220	88	896		3,074	3,970
Segment net assets	72,696	27,361	10,920	110,977			110,977
Unallocated net liabilities							(26,275)
Total net assets							84,702

A segmental analysis of total assets has not been included as this information is not available to the Board; the majority of assets are centrally held and are not allocated across the reportable segments. Only trade receivables and acquired intangibles are reported by segment and as such they are included as segment net assets above. Unallocated net liabilities include non-current assets, other receivables, cash and cash equivalents and current liabilities.

Geographical information

All amounts in £'000	Revenue			Non-current assets		
	6 months to 31/01/18	6 months to 31/01/17	12 months to 31/07/17	31/01/18	31/01/17	31/07/17
UK	294,990	273,114	579,156	36,630	48,896	54,659
Rest of Europe	334	365	773	2	-	-
Middle East and Africa	7,408	11,357	22,378	212	69	204
Americas	1,878	10,012	21,150	172	159	194
Asia Pacific	8,688	9,363	18,908	236	204	22
	323,298	304,211	642,365	37,252	49,328	55,079

Revenue and non-current assets are allocated to the geographic market based on the domicile of the respective subsidiary.

	6 months to 31/01/18 <i>unaudited</i> £'000	6 months to 31/01/17 <i>unaudited</i> £'000	12 months to 31/07/17 <i>audited</i> £'000
Interest receivable	25	-	8
Foreign currency exchange differences	-	278	36
Total	25	278	44

4 FINANCE COSTS

	6 months to 31/01/18 <i>unaudited</i> £'000	6 months to 31/01/17 <i>unaudited</i> £'000	12 months to 31/07/17 <i>audited</i> £'000
Bank interest payable	713	521	1,154
Amortisation of capitalised finance costs	65	38	86
Foreign currency exchange differences	444	-	-
Total	1,222	559	1,240

5 INCOME TAX EXPENSE

Analysis of charge in the period:

	6 months to 31/01/18 <i>unaudited</i> £'000	6 months to 31/01/17 <i>unaudited</i> £'000	12 months to 31/07/17 <i>audited</i> £'000
Total income tax expense	480	1,833	4,160

The total tax charge is higher (31 January 2017: higher; 31 July 2017: higher) than the standard rate of corporation tax. The differences are detailed below:

(Loss)/profit before tax	(12,682)	5,166	11,508
Corporation tax at average rate for the period 19.0% (31/01/17: 19.7%, 31/07/17: 19.7%)	(2,410)	1,016	2,267
Goodwill impairment loss	2,054	-	-
Expenses not (chargeable)/deductible for tax purposes	(19)	(141)	(87)
Irrecoverable withholding tax	569	721	1,976
Difference between UK and overseas tax rates	112	132	271
Changes in UK tax rates	-	-	(424)
Overseas losses not provided for	129	105	57
Adjustments to tax charge in respect of previous periods	45	-	100
Total tax charge	480	1,833	4,160

6 DIVIDENDS

	6 months to 31/01/18 <i>unaudited</i>	6 months to 31/01/17 <i>unaudited</i>	12 months to 31/07/17 <i>audited</i>
Dividends on shares classed as equity:			

	£'000	£'000	£'000
Paid during the period			
Equity dividends on ordinary shares	<u>5,474</u>	<u>5,289</u>	<u>7,195</u>

7 EARNINGS PER SHARE

Earnings per share has been calculated by dividing the consolidated profit after taxation attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share has been calculated, on the same basis as above, except that the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares (arising from the Group's share option schemes) into ordinary shares has been added to the denominator. There are no changes to the profit (numerator) as a result of the dilutive calculation.

The earnings per share information has been calculated as follows:

	6 months to 31/01/18 <i>unaudited</i> £'000	6 months to 31/01/17 <i>unaudited</i> £'000	12 months to 31/07/17 £'000
(Loss)/profit for the period	(13,162)	3,333	7,348
Number of Shares	000's	000's	000's
Weighted average number of ordinary shares in issue	31,858	31,078	31,453
Effect of dilutive potential ordinary shares under option	522	823	939
	<u>32,380</u>	<u>31,901</u>	<u>32,392</u>
Earnings per Share	pence	pence	pence
Earnings per ordinary share from continuing operations:			
- Basic	(41.3)	10.7	23.4
- Diluted	(40.6)	10.5	22.7

8 INTANGIBLE ASSETS

	Goodwill £'000	Acquired intangibles £'000	Software licences £'000	Total £'000
COST				
At 1 August 2016	26,094	27,745	1,958	55,797
Additions	-	-	255	255
At 31 January 2017	<u>26,094</u>	<u>27,745</u>	<u>2,213</u>	<u>56,052</u>
At 1 August 2016	26,094	27,745	1,958	55,797
Additions	-	-	512	512
Acquisitions	2,645	3,635	-	6,280
At 1 August 2017	<u>28,739</u>	<u>31,380</u>	<u>2,470</u>	<u>62,589</u>
Additions	-	-	165	165
At 31 January 2018	<u>28,739</u>	<u>31,380</u>	<u>2,635</u>	<u>62,754</u>
AMORTISATION AND IMPAIRMENT LOSSES				
At 1 August 2016	-	6,315	1,111	7,426

	Charge for the period	-	1,432	135	1,567
	At 31 January 2017	-	7,747	1,246	8,993
	At 1 August 2016	-	6,315	1,111	7,426
	Charge for the year	-	3,074	287	3,361
	At 1 August 2017	-	9,389	1,398	10,787
	Charge for the period	-	1,615	171	1,786
	Impairment loss	10,824	6,298	-	17,122
	At 31 January 2018	10,824	17,302	1,569	29,695
NET BOOK VALUE	At 31 January 2017	26,094	19,998	967	47,059
	At 31 July 2017	28,739	21,991	1,072	51,802
	At 31 January 2018	17,915	14,078	1,066	33,059

The balances at 31 January 2017 and 31 January 2018 are unaudited, the remaining balances are audited.

Impairment of Intangible assets

An impairment loss of £6,060,000 has been recognised against acquired intangible assets as part of an impairment review. This loss has been included as a non-underlying cost within administrative expenses.

Recoverable amounts have been determined by comparing the carrying value of intangibles with the fair value less costs of any disposal. The key estimates for the fair value calculations are those regarding cashflow forecast, long-term growth rates and discount rates.

Cashflow forecasts are based on the Group's five year internal forecasts, the results of which were reviewed by the Board.

Long-term growth rates of 2.7% (2017: 2.5%) have been applied beyond five years based on GDP growth forecasts by recognised bodies.

Management estimated an average discount rate of 10.1% (2017: 15.4%) using pre-tax rates derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each CGU. The reduction in the discount rate used is due to the change in the Group's capital structure and a reduction in the risk premium previously used.

The impairment review determined the following:

An impairment of £5,606,000 has been provided against the acquired intangibles created on the acquisition of Networkers due to the trading performance of that business against the original expectations at the time of the acquisition. This was primarily as a result of a decline in revenues from key customers since the acquisition.

An impairment of £454,000 has been made on the acquired intangibles recognised on the acquisition of Provanis. Due to the business being debranded and fully integrated within the Group's existing Technology business the carrying value of the acquired intangibles has been written down to zero.

Impairment of goodwill

Goodwill arising on business combinations is not amortised but is reviewed for impairment on an annual basis, or more frequently if there are indications that goodwill may be impaired. Goodwill acquired in business combinations is allocated to groups of cash generating units (CGUs) according to the level at which management monitor goodwill.

Goodwill is allocated to CGUs, which are determined as the reportable segments, as follows:

	31/01/2018	31/01/2017	31/07/2017
	<i>unaudited</i>	<i>unaudited</i>	<i>audited</i>
	£'000	£'000	£'000
Professional Services	-	1,643	1,643
Engineering	4,379	4,379	4,379
Technology	10,653	20,072	20,072

Resourcing Solutions Limited	<u>2,645</u>	-	<u>2,645</u>
	<u>17,677</u>	<u>26,094</u>	<u>28,739</u>

Impairment reviews have been performed comparing the carrying value of goodwill with the recoverable amount of the CGUs to which goodwill has been allocated. Recoverable amounts for cash generating units are the higher of fair value less costs of disposal, and value in use. The key estimates for the value in use calculations are those regarding cashflow forecast, long-term growth rates and discount rates.

Cashflow forecasts are based on the Group's five year internal forecasts, the results of which were reviewed by the Board.

Long-term growth rates of 2.7% (2017: 2.5%) have been applied beyond five years based on GDP growth forecasts by recognised bodies.

Management estimated an average discount rate of 10.1% (2017: 15.4%) using pre-tax rates derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each CGU. The reduction in the discount rate used is due to the change in the Group's capital structure and a reduction in the risk premium previously used.

The impairment review determined the following:

Goodwill related to the Provanis acquisition, allocated to the Professional Services reportable segment, of £1,643,000 was fully impaired in the year due to the business being debranded and fully integrated within the Group's existing Technology business.

An impairment of £9,419,000 has been provided against Goodwill attributed to the Networkers acquisition, which is included within the Technology CGU, due to the trading performance of that operating segment against the original expectations at the time of the acquisition. This was primarily as a result of a decline in revenues from key customers since acquisition.

The impairment cost of £11,062,000 has been included as a non-underlying expense within administrative expenses.

Sensitivity analysis on the impairment tests of each group of cash generating units has been performed by changing key assumptions to the discount rate and long-term growth rates. No impairment losses would be required if the long-term growth rates of 4.3% were used with the discount rate of 10.1% and likewise a discount rate of 8.8% with long-term growth rates of 2.7%.

9 TRADE AND OTHER RECEIVABLES

	31/01/2018	31/01/2017	31/07/2017
	<i>unaudited</i>	<i>unaudited</i>	<i>audited</i>
	£'000	£'000	£'000
Trade receivables	100,929	98,386	110,977
Other receivables	635	376	1,729
Prepayments	1,959	1,825	2,291
	<u>103,523</u>	<u>100,587</u>	<u>114,997</u>

Included in the Group's trade receivable balance are debtors with a carrying amount of £15,772,000 (31 January 2017: £12,899,000, 31 July 2017: £15,661,000) which are past due at the reporting date for which the Group has not provided as the Directors do not believe there has been a significant change in credit quality and consider the amounts to be recoverable in full. The Group does not hold any collateral over these balances.

The Directors consider all trade receivables not past due to be fully recoverable.

Ageing of overdue but not impaired trade receivables:

Number of days overdue	31/01/2018 <i>unaudited</i> £'000	31/01/2017 <i>unaudited</i> £'000	31/07/2017 <i>audited</i> £'000
0-30 days	9,384	8,250	9,007
30-60 days	2,648	2,304	3,233
60-90 days	1,618	1,216	1,463
90+ days	2,122	1,129	1,958
	<u>15,772</u>	<u>12,899</u>	<u>15,661</u>

10 SHARE CAPITAL

Authorised share capital	31/01/2018 <i>unaudited</i> £'000	31/01/2017 <i>unaudited</i> £'000	31/07/2017 <i>audited</i> £'000
40,000,000 Ordinary shares of £0.01 each	<u>400</u>	<u>400</u>	<u>400</u>

Allotted, called up and fully paid	31/01/2018 <i>unaudited</i> £'000	31/01/2017 <i>unaudited</i> £'000	31/07/2017 <i>audited</i> £'000
Ordinary shares of £0.01 each	<u>322</u>	<u>316</u>	<u>318</u>

The movement in the number of shares in issue is shown below:

	'000
In issue at 1 August 2016	31,167
Exercise of share options	422
In issue at 31 January 2017	<u>31,589</u>
In issue at 1 August 2016	31,167
Exercise of share options	634
In issue at 31 July 2017	<u>31,801</u>
In issue at 1 August 2017	31,801
Exercise of share options	397
In issue at 31 January 2018	<u>32,198</u>

11 ALTERNATIVE PERFORMANCE MEASURES

Alternative performance measures are disclosed below to show the adjusted and underlying trading performance of the Group.

The underlying basis is reported excluding non-recurring items, amortisation of acquired intangibles, results from divested businesses and exchange gains from balance sheet conversion.

6 months to January 2018

unaudited

All amounts in £'000	Statutory basis	Non-underlying items	Amortisation of acquired intangibles	Divested businesses	Underlying basis
Revenue	323,298	-	-	-	323,298
Gross profit	39,766	-	-	-	39,766
(Loss)/profit from operations	(11,485)	115	18,737	352	7,728

6 months to January 2017

unaudited

All amounts in £'000	Statutory basis	Non-underlying items	Amortisation of acquired intangibles	Divested businesses	Underlying basis
Revenue	304,211	-	-	-	304,211
Gross profit	35,368	-	-	-	35,368
Profit from operations	5,447	1,100	1,432	-	7,979

12 months to July 2017

audited

All amounts in £'000	Statutory basis	Non-underlying items	Amortisation of acquired intangibles	Divested businesses	Underlying basis
Revenue	642,365	-	-	-	642,365
Gross profit	74,708	-	-	-	74,708
Profit from operations	12,704	1,610	3,074	-	17,388

Statement of Directors' Responsibilities

The Board of Directors confirm that this condensed consolidated half year financial information has been prepared in accordance with IAS 34, as adopted by the European Union.