

Company Registration No. 06330902

Houlihan Lokey Capital (Holdings) Limited

Strategic Report, Directors' Report and Financial Statements

For the year ended 31 March 2018



Houlihan Lokey Capital (Holdings) Limited
Strategic report, Directors' report and financial statements
31 March 2018

Contents	Page
Strategic report	3
Directors' report	4
<i>Statement of Directors' responsibilities</i>	5
Independent auditor's report to the shareholders of Houlihan Lokey Capital (Holdings) Limited	6 to 7
Statement of financial position	8
Statement of comprehensive income	9
Statement of changes in equity	10
Statement of cash flows	11
Notes to the financial statements	12 to 21

Houlihan Lokey Capital (Holdings) Limited

Strategic report

The Directors present the strategic report for the year ended 31 March 2018:

Principal activity

Houlihan Lokey Capital (Holdings) Limited ("the Company") is an investment holding company whose operating subsidiaries provide corporate financial advisory services in Europe, the Middle East and Asia.

Review of the business and future prospects

The Company has continued to invest in its activities throughout the year and the Directors are confident about its future prospects and, as such, consider it is appropriate to prepare these financial statements on a going concern basis.

The Company made a profit of \$14,395,873 (31 March 2017: \$838,763 loss) for the year. During the year, the Company received distributions in relation to its holding in the entity HLHZ UK Holdings, LP, of \$17,770,374 (31 March 2017: nil). During the year, the Company made no political or charitable donations (31 March 2017: nil). During the year no dividend was paid (31 March 2017: nil).

The Company's profitability is as disclosed above, given the straight forward nature of the business, the Directors do not consider any other KPI's are needed to understand the development, performance or position of the business.

During the year the Company incorporated a new subsidiary, Houlihan Lokey (MEA Financial Advisory) Limited, in Dubai. This entity was incorporated with the intention to extend the group's corporate finance and advisory presence into the Middle East. The entity received regulatory approval from the Dubai Financial Services Authority (DFSA) on 25 September 2017.

There were no other significant developments or factors which will have a major impact on the continued success or operation of the business in future.

Risk management and management of business

The risks of, and funding to support the business and operations of the subsidiaries are monitored on an ongoing basis. More information about risks facing the Company and how they are managed can be found in Note 16 to the annual financial statements. In its treasury and cash management function, the Company monitors cash needs as well as excess cash balances and sends or requests cash as needed via its related party loans. Its subsidiaries and investments are managed by maximising revenue generation and associated profitability. Capital requirements are monitored in relation to the external requirements of its subsidiaries and investments and any working capital needs they may have.

Approved by the Board of Directors
and signed on its behalf by:


J A Cowan
Director

26 October 2018

Houlihan Lokey Capital (Holdings) Limited

Directors' report

The Directors submit their report and the audited financial statements for the year ended 31 March 2018.

Directors

The directors of the company throughout the year and as at the date of this report were:

J A Cowan
D A Preiser
J L Alley

Going concern

The Company's business activities together with information on its risk management is described in the Strategic report on page 3. The company has access to considerable financial resources through its operating subsidiaries. Together with its business model which is designed for the company to be profitable in most economic environments, the directors believe that the company is well placed to manage its business risks into the future. Accordingly, the directors have adopted the going concern basis in preparing the annual report and accounts.

Directors' interests

The Directors do not have any shareholding in the Company.

Directors' insurance and indemnities

The Directors have the benefit of the indemnity provisions contained in the Company's Articles of Association ('Articles'), and the Company has maintained throughout the year Directors' liability insurance for the benefit of the Company and the Directors. The Company has entered into qualifying third party indemnity arrangements for the benefit of all its Directors in a form and scope which comply with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force.

Registered Office

83 Pall Mall
London
SW1Y 5ES

Disclosure of information to auditors

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

Auditors

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

Approved by the Board of Directors
and signed on its behalf by:



J A Cowan
Director

26 October 2018

Company Registration No. 06330902

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) 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 estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HOULIHAN LOKEY CAPITAL (HOLDINGS) LIMITED

Opinion

We have audited the financial statements of Houlihan Lokey Capital (Holdings) Limited ("the company") for the year ended 31 March 2018 which comprise the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows, and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

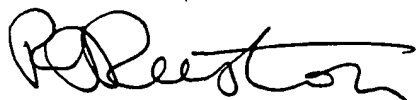
Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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



Richard Rawstron (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

26 October 2018

Houllhan Lokey Capital (Holdings) Limited

Statement of changes in equity for the year ended 31 March 2018

	Notes	Share capital \$	Share premium \$	Available-for-sale reserve \$	Retained profit \$	Total \$
Balance at 1 April 2016		1,299,979	24,696,534	102,892,564	1,780,271	130,669,348
<i>Comprehensive income:</i>						
Loss for the year		-	-	-	(838,763)	(838,763)
Balance at 31 March 2017		1,299,979	24,696,534	102,892,564	941,508	129,830,585
Balance at 1 April 2017		1,299,979	24,696,534	102,892,564	941,508	129,830,585
<i>Comprehensive income:</i>						
Profit for the year		-	-	-	14,395,873	14,395,873
Balance at 31 March 2018	12,13	1,299,979	24,696,534	102,892,564	15,337,381	144,226,458

The notes on pages 12 to 21 form an integral part of these financial statements.

Houlihan Lokey Capital (Holdings) Limited

Statement of financial position as at 31 March 2018

		As at 31 March 2018 \$	As at 31 March 2017 \$
Assets	Notes		
Non-current assets			
Deferred tax assets	6	-	1,914,687
Investment in subsidiaries and associates	7	175,857,233	173,696,653
Other financial assets	8	890,811	777,821
Total non-current assets		176,748,044	176,389,161
Current assets			
Loans owed by related parties, repayable on demand	14	6,034,056	5,936,696
Cash and cash equivalents	9	826	126
Current tax assets		596,505	-
Total current assets		6,631,387	5,936,822
Total assets		183,379,431	182,325,983
Liabilities			
Current liabilities			
Amounts owed to related parties, repayable on demand	14	9,478,805	6,585,664
Loans owed to related parties, repayable on demand	10, 14	18,122,856	32,484,783
Current tax liabilities		-	84,694
Other current liabilities	15	26,357	406,132
Total current liabilities		27,628,018	39,561,273
Non-current liabilities			
Deferred tax liabilities	6	198,300	-
Other interest bearing loans and borrowings	10	8,825,075	12,080,304
Share-based payment liabilities	11	2,501,580	853,821
Total non-current liabilities		11,524,955	12,934,125
Total liabilities		39,152,973	52,495,398
Net assets		144,226,458	129,830,585
Capital and reserves			
Share capital	12	1,299,979	1,299,979
Share premium		24,696,534	24,696,534
Available-for-sale reserve		102,892,564	102,892,564
Retained earnings		15,337,381	941,508
Total equity attributable to shareholders	13	144,226,458	129,830,585

The notes on pages 12 to 21 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 26 October 2018 and were signed on its behalf by


J A Cowan
Director

Company Registration No. 06330902

Houlihan Lokey Capital (Holdings) Limited

Statement of comprehensive income for the year ended 31 March 2018

	Notes	Year ended 31 March 2018 \$	Year ended 31 March 2017 \$
Share of profit from partnership interest	12	17,770,374	-
Finance income	4	253,588	874,978
Finance expenses	4	(681,961)	(778,326)
Impairment	7	(1,180,391)	-
Administrative expenses		18,851	(483,988)
Profit / (loss) on ordinary activities before taxation	5	16,180,461	(387,336)
Taxation	6	(1,784,588)	(451,427)
Profit / (loss) after taxation		14,395,873	(838,763)
Other comprehensive income, net of income tax			
Total other comprehensive income, net of tax			
Total comprehensive income / (loss) for the year		14,395,873	(838,763)

The results for the year ended 31 March 2018 and 31 March 2017 are derived from continuing operations.

The notes on pages 12 to 21 form an integral part of these financial statements.

Houliban Lokey Capital (Holdings) Limited

Statement of cash flows for the year ended 31 March 2018

	Notes	Year ended 31 March 2018 S	Year ended 31 March 2017 S
Cash flows from operating activities			
Operating profit / (loss) before taxation		16,180,461	(387,336)
Adjustments for non-cash movements:			
Fair value movements in financial assets	8	8,625	(413,417)
Foreign currency movements	5	(153,748)	(337,790)
Impairment on investments	7	1,180,391	-
Operating profit / (loss) before changes in working capital		17,215,729	(1,138,543)
Changes in working capital			
(Decrease)/Increase in provisions and other liabilities		(379,775)	406,132
Increase in amounts owed to related parties		879,262	127,574
(Increase)/Decrease in loans made to related parties		(97,359)	20,046,094
(Decrease) in loans received from related parties		(14,361,927)	(19,443,514)
(Decrease) in other interest bearings loans and liabilities		(3,255,229)	-
Net cash inflow / (outflow) from operating activities		700	(2,257)
Net increase / (decrease) in cash and cash equivalents		700	(2,257)
Cash and cash equivalents at the beginning of the year		126	2,383
Cash and cash equivalents at the end of the year	9	826	126

The notes on pages 12 to 21 form an integral part of these financial statements.

Houlihan Lokey Capital (Holdings) Limited

Notes to the financial statements for the year ended 31 March 2018

1. General information

Houlihan Lokey Capital (Holdings) Limited is a private limited company domiciled in the United Kingdom. The Company is an investment holding company and the Company's registered office is at 83 Pall Mall, London, SW1Y 5ES.

2. Basis of preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as endorsed by the European Union ('EU') at the balance sheet date, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis.

At 31 March 2018, there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the Company's financial statements for the year ended 31 March 2018 are prepared in accordance with IFRSs as issued by the IASB.

The financial statements were approved by the board on 16 October 2018.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention.

2.3 Functional and presentation currency

These financial statements are presented in US Dollars and the functional currency is US Dollars. Except as indicated, financial information presented in US Dollars has been rounded to the nearest dollar.

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Management uses estimates and applies judgement in determining the discount rate and forecasted cash flow inputs to the value in use method that is used in the impairment assessment of its investment in subsidiaries, and in determining the likelihood of available future taxable profits necessary for the recognition of deferred tax assets. Refer to note 3.4 and 3.7 respectively for more information. There are no other material estimates applied in the Company's financial statements.

In the opinion of the Directors, the use of estimates does not present a significant risk of material misstatement to the carrying amounts of assets and liabilities in these financial statements.

2.5 Newly effective and forthcoming standards

In May 2014, the IASB issued amendments to IFRS 15 *Revenue from Contracts with Customers* (2014). This provides guidance on revenue recognition and further required disclosures. This has not been early adopted by the Company, and is not applicable until the financial statements for the year ended 31 March 2019. As the Company does not generate revenue from contracts, it is expected that the new standard will have no material impact on the financial statements when it is adopted.

In July 2014, the IASB issued amendments to IFRS 9 *Financial Instruments* (2014). This standard contains requirements on the classification and measurement of financial assets and liabilities. This standard has not been early adopted by the company, and will not be applicable until the financial statements for the year ended 31 March 2019. While the Company has financial instruments, it is expected that the new standard will have no material impact on the financial statements when it is adopted.

In January 2016, the IASB issued IFRS 16 *Leases* (2016). For lessees, this specifies the recognition, measurement and disclosure of leases, and requires all leases to be recognised as assets or liabilities unless the term is 12 months or less. This has not been early adopted by the Company, and is not applicable until the financial statements for the year ended 31 March 2020. As the Company does not have any relationships as either a lessor or lessee, it is expected that the new standard will have no material impact on the financial statements when it is adopted.

Houlihan Lokey Capital (Holdings) Limited

Notes to the financial statements for the year ended 31 March 2018

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The accounting policies have been applied consistently by the Company.

3.1 Basis of exemption from consolidation

Houlihan Lokey Capital (Holdings) Limited is exempt from the obligation to prepare consolidated financial statements as its ultimate parent company, Houlihan Lokey, Inc. (listed in New York) prepares consolidated financial statements. The Company and all of its subsidiaries will be incorporated in the parent Company's consolidated group financial statements. The financial statements present information about the Company as an individual undertaking. All requirements for exemption as per Section 401 of the Companies Act 2006 have been met. See note 14 for further details.

3.2 Financial assets and liabilities

The company classifies its financial assets into the following categories:

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and on-demand deposits.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market; other than those held for trading or designated on initial recognition as assets at fair value through profit or loss or as available-for-sale. This category consists of loan notes receivable from related and other parties. They are measured initially at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method, which in itself is an approximation of fair value.

Financial assets designated as fair value through profit and loss

This category includes any financial asset that is designated on initial recognition as one to be measured at fair value with fair value changes in profit or loss. The only asset designated as such is the call option outlined in note 8.

Financial assets designated as available-for-sale assets

Available for sale assets are not held for short term trading, and are valued at cost on initial recognition. Subsequent measurement is at fair value if the fair value can be reliably measured, with any changes in fair value reported in other comprehensive income. Available for sale assets are reviewed at each balance sheet date for impairment. Any impairment or reversal of impairment is recognised in profit or loss. Any dividends received related to the available for sale asset are presented within finance income. The Company does not currently hold any available for sale investments, however retains an available for sale reserve in relation to the investment in HLHZ UK Holdings LP, which was reclassified from an available for sale asset to an investment in subsidiary in the year ended 31 March 2014.

The company classifies its financial liabilities into the following categories:

Financial liabilities measured at amortised cost

This category consists of interest bearing loans and borrowings with related parties and others. These financial liabilities are measured initially at fair value plus incremental direct transaction costs, and subsequently measured at amortised cost using the effective interest rate method, which in itself is an approximation of fair value.

3.3 Investments in other entities

Investments in subsidiaries

Investments in subsidiaries are those entities that are controlled by the Company. Investments are measured at cost less any impairment loss. The investments in subsidiaries are reviewed for impairment as discussed below.

Investments in associates

Investments in associates are those entities over which the Company has significant influence over, but not control. Investments in associates are measured at cost less any impairment loss. The investments in associates and joint ventures are reviewed for impairment as discussed below.

3.4 Impairment

Management reviews its investments and its loans to related parties for indications of impairment regularly. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of the asset exceeds its recoverable amount. Any impairment is recognised immediately in the income statement.

3.5 Finance income and expenses

Interest income and expense are recognised in the income statement using the effective interest rate method. Dividend income is recognised in the income statement when the right to receive income is established.

Houlihan Lokey Capital (Holdings) Limited

Notes to the financial statements for the year ended 31 March 2018

3.6 Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies, that are measured at fair value, are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation in the financial statements are recognised in profit and loss.

3.7 Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is not probable they will reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised. Tax on the share of profit from the Company's partnership interest is accounted for once the Company's profit share is determined.

3.8 Share-based payments

The Company has applied IFRS 2 in accounting for any share-based payments. In all share-based payment transactions entered by the Company, the parties receiving the share-based payments are employees of subsidiaries or other related parties, and settles in the shares of its immediate parent Houlihan Lokey, Inc.. As the Company is not receiving services directly and not settling in its own shares, it therefore treats all transactions as cash-settled. A liability is recognized over the vesting period each year such that as each award settles, the accrual of the net value transferred to the employee is reversed. A corresponding cost of investment in the relevant subsidiary is recognized to reflect the fact the entities are increasing in value due to the employment services being delivered by the employees.

Houlihan Lokey Capital (Holdings) Limited

Notes to the financial statements for the year ended 31 March 2018

	Year ended 31 March 2018	Year ended 31 March 2017
	\$	\$
4. Finance income & expenses		
Interest received on related party loans	97,359	123,771
Foreign exchange translation gain	153,748	337,790
Fair value gains on call option	-	413,417
Other interest received	2,481	-
Total finance income	253,588	874,978
Interest paid on related party loans	(494,168)	(559,621)
Interest paid on other interest bearing loans and borrowings	(179,168)	(213,217)
Fair value losses on call option	(8,625)	-
Other interest paid	-	(5,488)
Total finance expenses	(681,961)	(778,326)

	Year ended 31 March 2018	Year ended 31 March 2017
	\$	\$
5. Profit on ordinary activities before taxation		
The profit on ordinary activities before taxation is stated after charging:		
Auditor's remuneration	(37,000)	(35,000)
Foreign exchange translation gain/(loss)	153,748	337,790

Other than the fees paid for the audit of the Company's statutory financial statements, no other fees were paid to the auditor.

Houlihan Lokey Capital (Holdings) Limited

Notes to the financial statements for the year ended 31 March 2018

6. Taxation	Year ended 31 March 2018	Year ended 31 March 2017
	£	£
Tax expense		
Current tax:		
Tax (refund)/expense for the current year	(565,648)	694,767
Adjustment in respect of prior periods	(5,482)	-
Deferred tax:		
Origination and reversal of timing differences	2,394,241	(485,415)
Adjustment in respect of prior periods	(38,523)	242,075
Total tax charge for the period	1,784,588	451,427

Factors affecting the tax charge for the current period

The tax charge for the period is lower than that resulting from applying the standard rate of corporation tax in the UK: 19% (31 March 2017: 20%). The differences are explained below:

Profit/(loss) on ordinary activities before tax	16,180,461	(387,336)
Income tax using group's domestic tax rate 19% (31 March 2017 - 20%)	<u>3,074,288</u>	<u>(77,467)</u>
Effects of:		
Tax effect of share of partnership profits	(3,852,017)	779,231
Tax effect of exempt items	212,081	75,687
Change in effective tax rates	96,719	-
Temporary differences	2,297,522	(568,099)
Adjustments in respect of prior periods	(44,005)	242,075
Total tax charge / (credit) for the period	1,784,588	451,427

Deferred tax balance for the company is as follows:

Opening balance	1,914,687	1,671,347
Temporary differences	(2,297,522)	696,546
Adjustments in relation to prior periods	38,523	(242,075)
Change in effective tax rates	(96,719)	-
FX movement in deferred tax balances held in foreign currencies.	242,731	(211,131)
Closing balance	(198,300)	1,914,687

No tax losses have been transferred as group relief in the current financial year (2017: no tax losses transferred for group relief).

The Company is the general partner of HLHZ UK Holdings, LP and has control over the partnership. HLHZ UK Holdings, LP is considered as a transparent entity and that share of its profit is determined for corporation tax purposes in accordance with the partnership's profit-sharing arrangements.

A deferred tax liability (2017: asset) has been recognised in respect of the share of partnership profits subject to current tax and expected to be recognised by the Company in future periods. Deferred tax is also recognised in relation to the FV movements in other financial assets. Deferred tax balances as at 31 March 2018 have been recognised at an average rate of 18% (2017: 20%) being the average rate at which these balances are expected to unwind.

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will impact the company's future current tax charge accordingly.

7. Investments in subsidiaries and associates

Investments in subsidiaries and associates	As at 31 March 2018	As at 31 March 2017
	£	£
Carrying value at the beginning of the year	173,696,653	172,742,577
Additions - purchase price	300,000	96,898
Additions - share based payment contributions	3,040,971	857,178
Impairment loss	(1,180,391)	-
Carrying value at the end of the year	175,857,233	173,696,653

Houlihan Lokey Capital (Holdings) Limited

Notes to the financial statements for the year ended 31 March 2018

7. Investments in subsidiaries and associates (cont.)

Impairment losses

Based on analysis performed on the investments in subsidiaries and associates, the Company identified impairment charges where the carrying value of investments exceeded the recoverable amount. The impairment charge is shown separately on the statement of comprehensive income.

The impairment loss of \$1,180,391 has been recognised on the investment in the associate entity Lara (Holdco Italy) Limited. The impairment has been driven by an increase in the carrying amount of this investment, as part of the consideration is payable on a contingent basis on Houlihan Lokey, Inc. stock. This increase is the primary factor causing the carrying amount to exceed the recoverable amount, and is not specifically linked to the performance of the investment decreasing.

In determining the recoverable value of the investment, management deemed that a cash-generating unit (CGU) consisting of both Lara (Holdco Italy) Limited and its 100% owned subsidiary Leonardo & Co S.p.A existed, as the cash flows to the Company for the investment are wholly dependent on the performance of both entities. The recoverable value of the CGU was determined to be \$1,921,304 based on a value in use calculation. This is the first year impairment has been identified in this CGU.

The discount rate utilised in the value in use calculation is 12.8% (2017: 13.3%) which has been calculated using third party market estimates, market data and data derived from comparable companies. A long-term growth rate of 3% (2017: 3%), based on long-term inflationary growth rates, has been used. Budgeted earnings before interest and tax (EBIT) are based on company forecasts. Assumptions based on market comparables have been utilised where appropriate. These fair value measurements are categorised in level 3 of the fair value hierarchy.

The Company has holdings in subsidiary undertakings as follows:

Name of company	% holding 2018	% holding 2017	Country of incorporation	Principal activity
Held directly				
HLHZ UK Holdings, LP	* 99.99%	* 99.99%	United States	Holding company
*General partnership holding				
Houlihan Lokey Capital (Asia) Limited	100%	100%	United Kingdom	Holding company
Houlihan Lokey GmbH	100%	100%	Germany	Corporate finance advisory
Houlihan Lokey (Netherlands) B.V.	100%	100%	The Netherlands	Corporate finance advisory
Houlihan Lokey (MEA Financial Advisory) Limited	100%	n/a	U.A.E	Corporate finance advisory
Held indirectly				
Houlihan Lokey (Europe) Limited	100%	100%	United Kingdom	Holding company
Houlihan Lokey EMEA, Limited Liability Partnership (LLP)	100%	100%	United Kingdom	Corporate finance advisory
HLHZ UK Holdings, LP	** 0.01%	** 0.01%	United States	Holding company
**Limited partnership holding via Houlihan Lokey Capital (Asia) Limited)				
Houlihan Lokey (China) Limited	100%	100%	Hong Kong	Corporate finance advisory
Houlihan Lokey (Singapore) Private Limited	100%	100%	Singapore	Corporate finance advisory
Houlihan Lokey Investment Consulting (Beijing) Co., Limited	100%	100%	Peoples Republic of China	Corporate finance advisory
McQueen Holdings Limited	100%	100%	United Kingdom	Holding company
Houlihan Lokey (Financial Advisory) Limited	liquidated	100%	United Kingdom	Corporate finance advisory
Houlihan Lokey (España) S.A.	100%	100%	Spain	Corporate finance advisory

The Company's subsidiary, Houlihan Lokey (Europe) Limited, holds a direct membership in the entity Houlihan Lokey EMEA, LLP. The membership interest gives Houlihan Lokey (Europe) Limited rights to 100% of the partnership assets of that entity, with the exception of the individual capital contributions made by other members to the partnership. Similarly, the other members of the partnership do not hold any rights to the partnership assets, other than for their own capital contributions and any amount owing to them as designated under profit shares. Given this, the ownership of Houlihan Lokey EMEA, LLP is considered to be held 100% by Houlihan Lokey (Europe) Limited, and thus held 100% indirectly by the Company.

During the year the Company incorporated a new subsidiary, Houlihan Lokey (MEA Financial Advisory) Limited, based in Dubai. The entity received regulatory approval from the Dubai Financial Services Authority (DFSA) on 25 September 2017.

On the 6 February 2018, the Company's indirectly owned subsidiary, Houlihan Lokey (Financial Advisory) Limited, was liquidated. The entity had ceased to operate after a restructuring of the Group in the 2016 financial year.

The Company also has holdings in the following associate entities:

Name of company	% holding 2018	% holding 2017	Country of incorporation	Principal activity
Lara (Italy Holdco) Limited	49%	49%	United Kingdom	Holding company
Leonardo & Co. S.p.A (indirectly)	49%	49%	Italy	Corporate finance advisory

The investment in Lara (Italy Holdco) Limited and its 100% owned subsidiary Leonardo & Co. S.p.A are classified as associates due to the determination that the Company did not have control over the investment in Lara (Italy Holdco) Limited.

Houlihan Lokey Capital (Holdings) Limited

Notes to the financial statements for the year ended 31 March 2018

8. Other financial assets

During November 2015, the Company acquired a 10 year call option to acquire the remaining 51% stake of the associate Lara (Italy Holdco) Limited. The call option is designated as a financial asset measured at fair value through profit and loss and is not held for trading. The instrument is denominated in Euros and revalued at the year end rate to US Dollars for presentation in these financial statements. The current fair value of this financial instrument is €723,000 or \$890,811 (31 March 2017: €730,000 or \$777,821). The fair value movement on the option for the year is a gain of €7,000 or \$8,625 (2017: loss of €388,000 or \$413,417). The remaining movement in the balance year on year is the result of foreign exchange movements in the option value when it is translated from Euro to USD.

9. Cash and cash equivalents

	As at 31 March 2018	As at 31 March 2017
	\$	\$
Cash at bank	826	126
Total cash and cash equivalents	826	126

10. Interest bearing loans and borrowings

	As at 31 March 2018	As at 31 March 2017
	\$	\$
Loans owed to related parties, repayable on demand		
Loan from HLHZ UK Holdings, LP	13,760,552	28,182,663
Loan from Houlihan Lokey (China) Limited	4,362,304	4,302,120
	18,122,856	32,484,783

While the above loans owed to HLHZ UK Holdings, LP and Houlihan Lokey (China) Limited are both disclosed as repayable on demand, they are intended to be long term lending structures to be utilized in accordance with the Company's treasury function. The balances can fluctuate based on the lenders' cash availability or needs, but there is no intention that the loans be repaid in full in the foreseeable future. Both loans are disclosed inclusive of accrued interest. The applicable interest rates for related party loan balances is the GBP LIBOR plus a margin of 1%, accrued daily from date of issue.

Other interest bearing loans and borrowings

Long term loan notes issued	8,825,075	12,080,304
	8,825,075	12,080,304

On 16 November 2015 the company issued loan notes for a total of €14m, with a repayment date on the 25th anniversary of issue date, and an interest rate of 1.5% p.a. accrued daily from the date of issue. During the year, €2,884m of these notes were redeemed early by the recipients, inclusive of interest (2017: €2.842m). Refer to note 11 for further information with regards to the embedded share based payment in the notes.

11. Share-based payment liabilities

As part of the issue of loan notes made in November 2015, there was an embedded share-based payment transaction in both the Company (as the entity with the obligation to settle) and subsidiaries and associates; which employed the individual recipients of the notes (so receive the services from employees). The recipients of the notes may elect to have 20% of the outstanding principal balance of the redeemed annually, 50% of this principal balance will be paid in cash and the remaining 50% will be paid in the stock of the Company's ultimate parent, Houlihan Lokey Inc, (HLI). The number of shares issued will be based on the average price per share of HLI stock for the 20 days ending on the grant date. Because the Company is not receiving services and not settling in its own shares, it has recognised this as a cash-settled share based payment liability. A corresponding cost of investment in the relevant subsidiary or associate is recognized to reflect that fact the entities are increasing in value due to the employment services being delivered by the employees. There is no impact to the Company's profit and loss as a result of this transaction. The fair value of the liability and the effect of any share-based payment transactions during the year were not considered material to the Company's financial position.

12. Share capital

		As at 31 March 2018	As at 31 March 2017
	Number	\$	\$
Ordinary shares of £1 each:			
Issued and fully paid	813,527	1,299,979	1,299,979

The ordinary share capital of the Company is designated in Sterling.

Houlihan Lokey Capital (Holdings) Limited

Notes to the financial statements for the year ended 31 March 2018

13. Reconciliation of movements in shareholders' funds

	As at 31 March 2018	As at 31 March 2017
	\$	\$
Opening shareholder's funds	129,830,585	130,669,348
Loss for the period	14,395,873	(838,763)
Closing shareholder's funds	<u>144,226,458</u>	<u>129,830,585</u>

14. Related parties

Parent and ultimate controlling party

Houlihan Lokey, Inc., a publicly owned United States based international financial services company listed in New York is the immediate and ultimate parent company of the Company. Copies of the financial statements of the parent company may be obtained from Houlihan Lokey, Inc., 10250 Constellation Blvd., 5th Floor Los Angeles, CA 90067.

Company balances and movements

Parent

At 31 March 2018, the Company owed nil (31 March 2017: \$1,223,577) to its immediate parent company.
During the year the Company paid a dividend of nil to its immediate parent, Houlihan Lokey, Inc (31 March 2017: nil).

Related Party Transactions

The company was a party to various related party transactions throughout the year. As per IAS 24 - Related Party Disclosures - these parties are related because they are members of the same group, in that they all have the same ultimate parent company - Houlihan Lokey, Inc.

A list of Related Parties which the company had transactions with during the period is as follows:

- Houlihan Lokey, Inc
- HLHZ UK Holdings, LP
- Houlihan Lokey EMEA, LLP
- Houlihan Lokey Capital (Asia) Limited
- Houlihan Lokey (China) Limited
- Houlihan Lokey (MEA Financial Advisory) Limited
- Houlihan Lokey (Netherlands) B.V.
- Houlihan Lokey GmbH
- Leonardo & Co, S.p.A
- Lara (Italy Holdco) Limited

As at 31 March 2018, the Company owed a net amount of \$21,567,605 (31 March 2017: \$33,133,751) to related parties, details as follows:

	As at 31 March 2018	As at 31 March 2017
	\$	\$
Intercompany amounts owed to related parties	(9,478,805)	(6,585,664)
Loans owed to related parties, repayable on demand (refer note 10)	(18,122,856)	(32,484,783)
Loans owed by related parties, repayable on demand	6,034,056	5,936,696
	<u>(21,567,605)</u>	<u>(33,133,751)</u>

Intercompany accounts owed to related parties are held with the following entities: Houlihan Lokey EMEA, LLP \$7,598,109 (2017: \$3,998,248), Houlihan Lokey GmbH \$1,130,030 (2017: \$19,171), Houlihan Lokey (Netherlands) B.V., \$750,666 (2017: 279,849). The applicable interest rates for related party balances is the USD, GBP or EUR LIBOR (depending on currency of balance) plus a margin of 1%, accrued daily from date of issue.

The balance of loans owed by related parties, repayable on demand, of \$6,034,056 (2017: \$5,936,696) is with the Company's associate Lara (Italy Holdco) Limited. The applicable interest rate is 1.5% per annum. Loans owed to related parties, repayable on demand, are outlined in note 10.

During the year, the Company received profit distributions in relation to its holding in the entity HLHZ UK Holdings, LP, of \$17,770,374 (31 March 2017: nil).

Houlihan Lokey Capital (Holdings) Limited

Notes to the financial statements for the year ended 31 March 2018

15. Other current liabilities

	As at 31 March 2018	As at 31 March 2017
	\$	\$
Other current liabilities are as follows:		
Provision for legal fees		379,000
Other accrued expenses	26,357	27,132
	<u>26,357</u>	<u>406,132</u>

16. Financial risk management

Capital management

The Company manages its capital to ensure its investments will be able to continue as a going concern and to comply with externally imposed capital requirements. This involves an assessment of the risks inherent in its subsidiaries and investments business models and a calculation of capital charges against each identified risk to ensure adequate capitalisation. The Company manages its share capital and reserves disclosed in notes 12 and 13 to meet the requirements of its operating subsidiaries.

Credit risk

The credit risk on liquid funds is considered by management to be limited because the company holds limited liquid funds, and the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Currency risk

The Company has indirect material foreign currency exposures, including with regards to its investment in HLHZ UK Holdings, LP. The partnership interest is exposed to the risk of fluctuations in the Euro : USD and GBP : USD Exchange Rate since Houlihan Lokey (Europe) Limited and Houlihan Lokey EMEA, LLP (wholly owned subsidiaries of HLHZ UK Holdings, LP), manage their business activities in Euros, GBP and USD.

The Company also has indirect material foreign currency exposure with regards to its other European investments, including Houlihan Lokey GmbH, Houlihan Lokey B.V., and Lara Italy (Holdco) Limited. The Company's interest is exposed to the risk of fluctuations in the Euro:USD exchange rate since these entities manage their business activities in Euros.

The Company also has indirect material foreign currency exposures in Asia through its subsidiary Houlihan Lokey Capital (Asia) Limited and its subsidiaries. The Company's interest is exposed to the risk of fluctuations in the RMB : USD, SGD : USD, HKD : USD and GBP : USD exchange rates since these entities manage their business activities in Chinese Renminbi, Singapore Dollars, and Sterling. The exposure to HKD : USD is limited as the two currencies are pegged.

The Company does not consider it has material foreign currency exposure on its Dubai-based subsidiary Houlihan Lokey (MEA Financial Advisory) Limited because the entity manages its business in USD and AED, and the exposure to AED : USD is limited as the two currencies are pegged.

The Company has direct foreign currency exposures through its foreign currency designated assets and liabilities with related and other parties. Most notably the Euro denominated notes in relation to the acquisition of Houlihan Lokey GmbH and Houlihan Lokey (Netherlands) B.V. for a total of €8.7 million including accrued interest. These notes are offset by Euro denominated notes obtained as part of the acquisition of Lara Italy (Holdco) Limited totaling €5.7 million. These notes are exposed to fluctuations in the Euro: USD Exchange Rates.

The company's exposure to currency risk is as follows:

	As at 31 March 2018	
	EURO	GBP
	\$	\$
Amounts owed to related parties, repayable on demand	(1,880,696)	(221,748)
Loans owed by related parties, repayable on demand	6,034,056	-
Other interest bearing loans and borrowings	(8,825,075)	-
Other assets and liabilities	844,102	430,890
Net balance sheet exposure	<u>(3,827,614)</u>	<u>209,142</u>
	As at 31 March 2017	
	EURO	GBP
	\$	\$
Amounts owed to related parties	(2,346,247)	-
Loans owed by related parties	5,936,696	-
Other interest bearing loans and borrowings	(12,080,304)	-
Other assets and liabilities	777,821	1,817,442
Net balance sheet exposure	<u>(7,712,034)</u>	<u>1,817,442</u>

Houlihan Lokey Capital (Holdings) Limited

Notes to the financial statements for the year ended 31 March 2018

16. Financial risk management (cont.)

Currency risk (cont.)

The following average exchange rates applied during the year:

USD	Average rates	
	Year ended 31 March 2018	Year ended 31 March 2017
	\$	\$
1 EURO	1.18	1.09
1 GBP	1.34	1.30

Sensitivity Analysis

A 10% strengthening of the USD against the following currencies at 31 March 2018 would decrease/(increase) reserves on the net balance sheet exposure by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended 31 March 2017.

	As at 31 March 2018	As at 31 March 2017
	\$	\$
EURO	382,761	771,203
GBP	(20,914)	(181,744)

A 10% weakening of the USD against the above currencies at 31 March 2018 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Management continues to monitor the decision of the UK to leave the European Union and the potential impact on the Company's operating subsidiaries based in Europe, namely the UK, Germany, Spain, Italy and the Netherlands. At this time there has not been a material impact to the business.

Liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash on demand to meet its liabilities when due under both normal and stressed conditions. The type of cash instrument used and its maturity will depend on the Company's forecasted cash requirements.

In fulfilling its function as an investment holding company, the Company collects and distributes cash to and from its subsidiaries and investments and makes loans to related parties. The interest on the loans is rolled into the loan and becomes payable on demand with the loan. The Company therefore monitors these funding needs and should any short term funding be required, it may demand repayment on its loan or request cash from its parent Company.

Market risk

The Company does not undertake securities trading and therefore does not run market risk.

17. Subsequent events

There were no subsequent events between balance sheet date and the date of authorisation of these financial statements requiring disclosure.