

Company Registration No. 6330902

Houlihan Lokey Capital (Holdings) Limited

Directors' Report and Financial Statements

For the year ended 31 March 2016

THURSDAY



A15 *A5LEXTCY* 08/12/2016 #213
COMPANIES HOUSE

Houlihan Lokey Capital (Holdings) Limited

Directors' report and financial statements

31 March 2016

Contents	Page
Strategic report	2
Directors' report	3
Statement of Directors' responsibilities	4
Independent auditor's report to the members of Houlihan Lokey Capital (Holdings) Limited	5
Statement of financial position	6
Statement of comprehensive income	7
Statement of changes in equity	8
Statement of cash flows	9
Notes to the financial statements	10 to 19

Houlihan Lokey Capital (Holdings) Limited

Strategic report

The Directors present the strategic report for the year ended 31 March 2016.

Principal activity

The Company is an international treasury and cash management centre and investment holding Company whose operating subsidiaries provide corporate financial advisory services in Europe 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.

On 16 November 2015, the Company extended its investment holdings through the direct and indirect acquisition of 100% of the share capital in the investment banking operations of Leonardo & Co. NV (Leonardo) located in Germany, Netherlands, and Spain. The company also acquired a 49% indirect interest in Leonardo & Co S.p.A., based in Italy. Leonardo is an independent financial advisory firm that provides corporate finance, financial restructuring, and other strategic advisory services to clients in a range of industries across continental Europe. The purpose of these acquisitions was to increase the size and reach of the Company's operating subsidiaries. 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.

The Company made a loss of \$2,063,341 (31 March 2015: \$52,890 loss) for the year. During the year, the Company made no political or charitable donations and did not incur any political expenditure (31 March 2015: nil). During the year no dividend was paid (31 March 2015: nil).

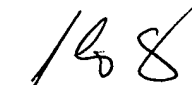
On 13 August 2015, the immediate parent of the Company, Houlihan Lokey, Inc. (HLI) completed an initial public offering on the New York Stock Exchange. Following the offering, the previous ultimate parent of the Company, ORIX USA owned 23,185,331 shares of Class B common stock, representing 41.4% of the voting power and 35.4% of the economic interest in HLI. Accordingly, Houlihan Lokey, Inc. is now the ultimate parent of the Company.

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 understanding of the development, performance or position of the business.

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 15 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 behalf of the Board.



J L Alley
Director

30 August 2016

Houlihan Lokey Capital (Holdings) Limited

Directors' report

The Directors submit their report and the audited financial statements for the year ended 31 March 2016.

Directors

The Directors of the Company throughout the year were:

J A Cowan (appointed 2 February 2016)
D A Preiser (appointed 11 November 2015)
E W Purcell (appointed 11 November 2015)
J L Alley (appointed 11 November 2015)
R H Hotz (resigned 11 November 2015)
S J Adelson (resigned 11 November 2015)
S L Beiser (resigned 11 November 2015)

Going Concern

The company's business activities together with information on its risk management is described in the Strategic Report on page 2. The company has considerable financial resources, and 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.

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 audit 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 audit information and to establish that the group'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 behalf of the Board.



J L Alley
Director

30 August 2016

Company Registration No. 6330902

Houlihan Lokey Capital (Holdings) Limited

Statement of Directors' responsibilities in respect of the Strategic Report, Directors' Report and the Financial Statements

The Directors are responsible for preparing the strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Company financial statements for each financial year. Under that law they have elected to prepare the Company financial statements in accordance with IFRS, 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 their profit or loss for that period. In preparing the Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

We have audited the financial statements of Houlihan Lokey Capital (Holdings) Limited for the year ended 31 March 2016 set out on pages 6 to 19. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.co.uk/auditscopeukprivate

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

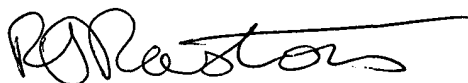
Opinion on other matters prescribed by the Companies Act 2006 and under the terms of our engagement

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are presented is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the company, 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.



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

30 August 2016

Houlihan Lokey Capital (Holdings) Limited

Statement of financial position at 31 March 2016

		Year ended 31 March 2016 \$	Year ended 31 March 2015 \$
Assets	Notes		
Non-current assets			
Deferred tax asset	6	1,671,347	1,742,694
Investment in subsidiaries	7	172,742,577	139,246,029
Other financial instruments	8	389,167	-
Total non-current assets		<u>174,803,091</u>	<u>140,988,723</u>
Current assets			
Loans owed by related parties, repayable on demand	14	25,972,593	81,205,269
Cash and cash equivalents	13	2,383	4,309
Current tax assets		164,421	-
Total current assets		<u>26,139,397</u>	<u>81,209,578</u>
Total assets		200,942,488	222,198,301
Liabilities			
Current liabilities			
Amounts owed to related parties	14	3,014,960	-
Other interest bearing loans and borrowings	10	52,140,514	87,666,339
Current tax liabilities		-	1,799,273
Total current liabilities		<u>55,155,474</u>	<u>89,465,612</u>
Non-current liabilities			
Other interest bearing loans and borrowings	10	14,881,747	-
Share-based payment liabilities	9	235,919	-
Total non-current liabilities		<u>15,117,666</u>	<u>-</u>
Total liabilities		70,273,140	89,465,612
Net assets		<u>130,669,348</u>	<u>132,732,689</u>
Capital and reserves			
Share capital	11	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		1,780,271	3,843,612
Total equity attributable to equity shareholders	12	<u>130,669,348</u>	<u>132,732,689</u>

The notes on pages 10 to 19 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 30 August 2016 and were signed on its behalf by



J.L. Alley
Director

Company Registration No. 6330902

Houlihan Lokey Capital (Holdings) Limited

Statement of comprehensive income for the year ended 31 March 2016

	Notes	Year ended 31 March 2016 \$	Year ended 31 March 2015 \$
Finance income	4	964,797	1,471,441
Finance expense	4	(1,894,581)	(1,409,478)
Administrative expenses		<u>(1,267,367)</u>	<u>(12,493)</u>
Profit / (loss) on ordinary activities before taxation	5	(2,197,150)	49,470
Taxation	6	<u>133,809</u>	<u>(102,360)</u>
Profit/ (loss) after taxation		<u>(2,063,341)</u>	<u>(52,890)</u>
Other comprehensive income, net of income tax			
Total other comprehensive income, net of tax		-	-
Total comprehensive income/ (loss) for the year		<u>(2,063,341)</u>	<u>(52,890)</u>

The results for the year ended 31 March 2016 and 31 March 2015 are derived from continuing operations.

The notes on pages 10 to 19 form an integral part of these financial statements.

Houlihan Lokey Capital (Holdings) Limited

Statement of changes in equity for the year ended 31 March 2016

	Notes	Share capital \$	Share premium \$	Available-for- sale reserve \$	Retained profit \$	Total \$
Balance at 1 April 2014		1,299,979	24,696,534	102,892,564	3,896,502	132,785,579
<i>Comprehensive income:</i>						
Loss for the year		-	-	-	(52,890)	(52,890)
Balance at 31 March 2015		<u>1,299,979</u>	<u>24,696,534</u>	<u>102,892,564</u>	<u>3,843,612</u>	<u>132,732,689</u>
Balance at 1 April 2015		1,299,979	24,696,534	102,892,564	3,843,612	132,732,689
<i>Comprehensive income:</i>						
Profit for the year		-	-	-	(2,063,341)	(2,063,341)
Balance at 31 March 2016	11,12	<u>1,299,979</u>	<u>24,696,534</u>	<u>102,892,564</u>	<u>1,780,271</u>	<u>130,669,348</u>

The notes on pages 10 to 19 form an integral part of these financial statements.

Houlihan Lokey Capital (Holdings) Limited

Statement of cash flows for the year ended 31 March 2016

	Year ended 31 March 2016	Year ended 31 March 2015
Notes	\$	\$
Cash flows from operating activities		
Operating profit/(loss) before taxation	(2,197,150)	49,470
<i>Adjustments for non-cash movements:</i>		
Fair value movements in financial assets	172,626	-
Changes in working capital		
Increase/(Decrease) in amounts owed to related parties	3,014,960	(2,386,081)
(Increase)/Decrease in loans made to related parties	55,232,676	23,136,110
Increase/(Decrease) in loans received from related parties	(35,525,825)	(20,802,205)
Tax Paid	(1,758,539)	-
Net cash (outflow) from operating activities	<u>18,938,748</u>	<u>(2,706)</u>
Cash flows from Investing activities		
Acquisition of investments in subsidiaries	(18,378,881)	-
Acquisition of other financial instruments	(561,793)	-
Net cash used in investing activities	<u>(18,940,674)</u>	<u>-</u>
Effect of exchange rate changes on cash and cash equivalents	-	-
Net (decrease) in cash and cash equivalents	(1,926)	(2,706)
Cash and cash equivalents at the beginning of the year	<u>4,309</u>	<u>7,015</u>
Cash and cash equivalents at the end of the year	<u>13 2,383</u>	<u>4,309</u>

The notes on pages 10 to 19 form an integral part of these financial statements.

Houlihan Lokey Capital (Holdings) Limited

Notes to the financial statements for the year ended 31 March 2016

1. General Information

Houlihan Lokey Capital (Holdings) Limited is domiciled in the United Kingdom. The Company is a 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.

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. This has not yet been endorsed for use in the EU.

At 31 March 2016, 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 2016 are prepared in accordance with IFRSs as issued by the IASB.

The financial statements were approved by the board on 30 August 2016.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

These consolidated 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 judgements 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 adjustments to the carrying amounts of assets and liabilities in these financial statements.

Houlihan Lokey Capital (Holdings) Limited

Notes to the financial statements for the year ended 31 March 2016

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. See note 14 for further details. 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 400 of the Companies Act 2006 have been met.

The ultimate parent company at 31 March 2015 was ORIX USA. On 13 August 2015, Houlihan Lokey, Inc., the Company's immediate parent entity, completed an initial public offering on the New York Stock Exchange. Following the offering, ORIX USA owned 23,185,331 shares of Class B common stock, representing 41.4% of the voting power and 35.4% of the economic interest in Houlihan Lokey, Inc. Accordingly, Houlihan Lokey, Inc is now the ultimate parent of the Company.

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 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 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 mainly 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. This category consists of the call option acquired in the current year.

The company classifies its financial liabilities into the following categories:

Financial liabilities measured at amortised cost

This category consists mainly 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 measured at cost less any impairment loss. The investments in subsidiaries 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

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 2016

3.6 Foreign currency transaction

Transactions in foreign currencies are translated to the functional currencies 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 consolidated financial statements shall be recognised in other comprehensive income.

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 provided 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 payment liabilities

The Company has applied IFRS 2 in accounting for any share-based payment liabilities. In all share-based payment transactions entered by the Company, it is not receiving services and not settling in its own shares, therefore treats all transactions as cash-settled. A liability spread 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 subsidiary is recognized to reflect that fact the Company are increasing in value due to employment services being delivered by the employees.

Houlihan Lokey Capital (Holdings) Limited

Notes to the financial statements for the year ended 31 March 2016

4. Finance Income & Expense

Finance Income

	Year ended 31 March 2016	Year ended 31 March 2015
	\$	\$
Bank interest	-	26
Interest received on intercompany loan	964,797	1,302,206
Foreign exchange translation gain	-	169,209
	<u>964,797</u>	<u>1,471,441</u>

Finance Expense

	Year ended 31 March 2016	Year ended 31 March 2015
	\$	\$
Bank interest	3	-
Interest paid on intercompany loans	1,356,449	1,409,478
Foreign exchange translation loss	365,503	-
Fair value movement on call option	172,626	-
	<u>1,894,581</u>	<u>1,409,478</u>

5. Profit on ordinary activities before taxation

	Year ended 31 March 2016	Year ended 31 March 2015
	\$	\$

The profit on ordinary activities before taxation is stated after charging:

Foreign exchange translation gain/(loss)	<u>(365,503)</u>	<u>169,209</u>
--	------------------	----------------

The following fees have been borne by Houlihan Lokey, Inc. and will be recharged to its subsidiary companies:

Fees for the Houlihan Lokey Capital (Holdings) Ltd statutory audit	<u>35,490</u>	<u>34,125</u>
--	---------------	---------------

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 2016

6. Taxation

	Year ended 31 March 2016	Year ended 31 March 2015
	\$	\$
Tax expense		
Current tax:		
Tax expense/(refund) for the current year	(206,634)	1,840,217
Adjustment in respect of prior periods	1,478	4,837
Deferred tax:		
Origination and reversal of timing differences	71,347	(1,742,694)
Total tax charge / (credit) for the period	<u>(133,809)</u>	<u>102,360</u>

Factors affecting the tax charge for the current period

The tax charge for the period is higher than that resulting from applying the standard rate of corporation tax in the UK: 20% (31 March 2015 - 21%)

The differences are explained below:

Profit/(loss) on ordinary activities before tax	(2,197,150)	49,470
Income tax using group's domestic tax rate 20% (31 March 2015 - 21%)	<u>(439,430)</u>	<u>10,389</u>
Effects of:		
Group relief	-	-
Tax effect of share of partnership profits	(18,810)	1,829,828
Tax effect of exempt items	251,606	-
Deferred tax temporary differences and FX movements	<u>71,347</u>	<u>(1,742,694)</u>
Adjustments in respect of prior periods	1,478	4,837
Total tax charge / (credit) for the period	<u>(133,809)</u>	<u>102,360</u>

Deferred tax balance for the company is as follows:

Opening balance	1,742,694	-
Temporary differences	(18,810)	1,742,694
FX movement in deferred tax balances held in foreign currencies	<u>(52,537)</u>	<u>-</u>
Closing balance	<u>1,671,347</u>	<u>1,742,694</u>

The Finance Act 2013, which passed into law on 17 July 2013, included further rate reductions in the UK corporation tax rate from 23% to 21% with effect from 1 April 2014 and 21% to 20% with effect from 1 April 2015.

No tax losses have been transferred to Houlihan Lokey (Europe) Limited as group relief in the current financial year.

Houlihan Lokey Capital (Holdings) Limited 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 asset has been recognised in respect of the share of partnership profits subject to current tax and expected to be recognised as income by Houlihan Lokey Capital (Holdings) Limited in future periods. Deferred tax balances as at 31 March 2016 have been recognised at a rate of 20% (2015: 20%) being the rate at which these balances are expected to unwind.

Houlihan Lokey Capital (Holdings) Limited

Notes to the financial statements for the year ended 31 March 2016

7. Investment in subsidiary undertakings

	Year ended 31 March 2016	Year ended 31 March 2015
	\$	\$
Carrying value of investments at the beginning of the year	139,246,029	139,246,029
Additional subsidiaries acquired during the year	<u>33,496,548</u>	<u>-</u>
Carrying value at the end of the year	<u>172,742,577</u>	<u>139,246,029</u>

Based on analysis performed on the investment in subsidiaries, there has been no impairment.

The Company has holdings in group undertakings as follows:

Name of company	% holding	Country of incorporation	Principal activity
<i>Held directly</i>			
HLHZ UK Holdings, LP *General partnership holding	* 99.99%	United States	Holding company
Houlihan Lokey Capital (Asia) Limited	100%	United Kingdom	Holding company
Houlihan Lokey GmbH	100%	Germany	Corporate finance advisory
Houlihan Lokey (Netherlands) B.V.	100%	The Netherlands	Corporate finance advisory
Lara Italy (Holdco) Limited	49%	United Kingdom	Holding company
<i>Held indirectly</i>			
Houlihan Lokey (Europe) Limited	100%	United Kingdom	Corporate finance advisory
Houlihan Lokey (China) Limited	100%	Hong Kong	Corporate finance advisory
Houlihan Lokey Investment Consulting (Beijing) Co. Limited	100%	Peoples Republic of China	Corporate finance advisory
McQueen Holdings Limited	100%	United Kingdom	Holding company
Houlihan Lokey (Financial Advisory) Limited	100%	United Kingdom	Corporate finance advisory
Houlihan Lokey (España) S.A.	100%	Spain	Corporate finance advisory
Leonardo & Co. S.p.A.	49%	Italy	Corporate finance advisory

The direct investment in Lara Italy (Holdco) Limited, and indirect investment in Leonardo & Co. S.p.A. are considered to be investments in subsidiaries under IFRS 10.

8. Other financial instruments

On 16 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 has been designated as a financial asset measured at fair value through profit and loss and is not held for trading. The fair value of this financial instrument is not considered material to the Company financial statements.

9. Share-based payment liabilities

As part of the issue of loan notes made during the year, there was an embedded share-based payment liability to employees in both the Company (as the entity with the obligation to settle) and the subsidiaries; which employed the individual recipients of the notes (as the recipients of 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. 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 profit or loss or financial position.

Houlihan Lokey Capital (Holdings) Limited

Notes to the financial statements for the year ended 31 March 2016

10. Other interest bearing loans and borrowings

	Year ended 31 March 2016	Year ended 31 March 2015
	\$	\$
Current liabilities		
Loan from HLHZ UK Holdings, LP, repayable on demand and inclusive of accrued interest	47,901,545	83,508,148
Loan from Houlihan Lokey (China) Limited, repayable on demand and inclusive of accrued interest	4,238,969	4,158,191
	<u>52,140,514</u>	<u>87,666,339</u>
Non-current liabilities		
Long term loan notes issued	14,881,747	-
	<u>67,022,261</u>	<u>87,666,339</u>
Total interest bearing loans and borrowings		

While the loans disclosed under current liabilities on 31 March 2016 are 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.

During the year the Company issued loan notes for a total of €14m with a repayment date on the 25th anniversary of issue date, with an interest rate of 1.5% p.a. accrued daily from the date of issue.

11. Share capital

	Year ended 31 March 2016	Year ended 31 March 2015
Ordinary shares of £1 each:	Number	\$
Issued and fully paid	<u>813,527</u>	<u>1,299,979</u>

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 2016

12. Reconciliation of movements in shareholders funds

	Year ended 31 March 2016	Year ended 31 March 2015
	\$	\$
Profit/(loss) for the period	(2,063,341)	(52,890)
Opening shareholder's funds	<u>132,732,689</u>	<u>132,785,579</u>
Closing shareholder's funds	<u>130,669,348</u>	<u>132,732,689</u>

13. Cash and cash equivalents

	Year ended 31 March 2016	Year ended 31 March 2015
	\$	\$
Bank balances	<u>2,383</u>	<u>4,309</u>

14. Related parties

Parent and ultimate controlling party

On 13 August 2015, Houlihan Lokey, Inc., the Company's parent entity, completed an initial public offering on the New York Stock Exchange. Following the offering, the prior year ultimate parent ORIX USA now owns 23,185,331 shares of Class B common stock, representing 41.4% of the voting power and 35.4% of the economic interest in Houlihan Lokey, Inc. Accordingly, Houlihan Lokey, Inc is now both the Company's immediate and ultimate parent for the year ended 31 March 2016.

Company balances and movements

Parent

At 31 March 2016, the Company was owed \$nil (31 March 2015: \$nil) by its immediate parent Company.

During the year the company paid a dividend of \$nil to its immediate parent, Houlihan Lokey, Inc (31 March 2015: \$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:

- HLHZ UK Holdings, LP
- Houlihan Lokey (Europe) Limited
- McQueen Holdings Limited
- Houlihan Lokey (Financial Advisory) Limited
- Houlihan Lokey Capital (Asia) Limited
- Houlihan Lokey (China) Limited
- Houlihan Lokey (Netherlands) B.V formerly Leonardo & Co. B.V.
- Houlihan Lokey G.m.bH. formerly Leonardo & Co. B.V.
- Houlihan Lokey (Espana) S.A. formerly Leonardo & Co. S.p.A.
- HLHZ Investment Consulting (Beijing) Co. Limited
- Leonardo & Co. S.p.A
- Lara Italy (Holdco) Limited

Affiliates

As at 31 March 2016, the Company owed \$29,182,880 (31 March 2015: \$6,467,071) to affiliates, details as follows:

	Year ended 31 March 2016	Year ended 31 March 2015
	\$	\$
Intercompany amounts owed to related parties	(3,014,960)	-
Interest bearing loans and borrowings owed to related parties	10 (52,140,514)	(87,666,339)
Loans owed by related parties, repayable on demand	<u>25,972,593</u>	<u>81,205,269</u>
	<u>(29,182,881)</u>	<u>(6,461,070)</u>

Houlihan Lokey Capital (Holdings) Limited

Notes to the financial statements for the year ended 31 March 2016

15. 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 11 and 12 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 counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Market Risk

The Company has material foreign currency exposures, including with regards to its investment in Houlihan Lokey, UK, 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 (wholly owned subsidiary of Houlihan Lokey, UK, LP), manages its business activities in Euros, GBP and USD.

The Company has further foreign currency with regards to the investments acquired during the year, including Houlihan Lokey GmbH, Houlihan Lokey NV, 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 has also issued Euro denominated notes in relation to the acquisition of Houlihan Lokey GmbH and Houlihan Lokey (Netherlands) B.V. for a total of €14.0 million. These notes are offset by Euro denominated notes obtained as part of the acquisition of Lara Italy (Holdco) Limited totaling €5.8 million. These notes are exposed to fluctuations in the Euro: USD Exchange Rates.

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

	31 March 2016	
	GBP	EURO
	\$	\$
Cash and cash equivalents	2,224	-
Amounts owed to related parties	(3,024,944)	-
Loans owed by related parties	-	5,846,401
Other interest bearing loans and borrowings	-	(14,881,747)
Other assets and liabilities	1,835,767	389,167
Net balance sheet exposure	<u>(1,186,953)</u>	<u>(8,646,179)</u>
	31 March 2015	
	GBP	EURO
	\$	\$
Cash and cash equivalents	3,670	-
Net balance sheet exposure	<u>3,670</u>	<u>-</u>

The following significant exchange rates applied during the year:

Company	Average rate	
	Year ended 31 March 2016	Year ended 31 March 2015
	\$	\$
1 EURO	1.10	1.25
1 GBP	1.50	1.61

Sensitivity Analysis

A 10% strengthening of the USD against the following currencies at 31 March 2016 would decrease 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 2015.

Company	Year ended 31 March 2016	Year ended 31 March 2015
	\$	\$
EURO	864,618	-
GBP	118,695	(367)

A 10% weakening of the USD against the above currencies at 31 March 2016 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.

Houlihan Lokey Capital (Holdings) Limited

Notes to the financial statements for the year ended 31 March 2016

15. Financial risk management (cont.)

Liquidity risk

The Company manages its 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 international treasury and cash management centre, 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.

16. Subsequent events

Subsequent to year end the intercompany loan balance owed by ORIX USA has been completely repaid. Final payment on this loan was received on 31 May 2016.

We are also considering the recent decision of the UK to leave the European Union because the Company's operating subsidiaries are based in Europe, namely the UK, Germany, Spain, Italy and the Netherlands. At this time there has not been a material impact on the business.

There are no other events between balance date and the authorisation of the financial statements requiring disclosure.