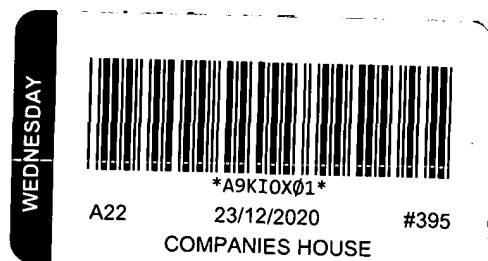


Registration number 04692212

How Splendid Limited

Annual report and financial statements

for the year ended 31 March 2019



How Splendid Limited

Directors John Paul Bishop
Timothy Brian Hassett (appointed 13 June 2019)
Alex Eicke (resigned 30 April 2020)
Daniel Morris (resigned 30 April 2020)
Kathryn Herrick (resigned 30 May 2019)
Geoffrey Bicknell (appointed 5 September 2019, resigned 20 January 2020)
Timothy Bonnet
Iain Ferguson (resigned 18 July 2019)
Olivia Walker (resigned 5 April 2020)
Edward HM Guest (appointed 20 January 2020)

Company Number 04692212

Registered Office Unlimited House
10 Great Pulteney Street
London
W1F 9NB

Bankers Barclays Bank plc
180 Oxford Street
London
W1D 1EA

Independent Auditor KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

How Splendid Limited

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How Splendid Limited

Directors' Report for the year ended 31 March 2019

The directors present their report and the financial statements for the year ended 31 March 2019.

Principal activity

The principal activity of the company is that of digital transformation consultancy.

Company registration number

The company registration number is 04692212.

Results and dividends

The results for How Splendid Limited show a profit for the financial year of £363,633 (2018: loss of £777,030).

Ultimate parent undertaking

The directors consider that the ultimate parent undertaking of the company is Unlimited Marketing Group Ltd.

Directors

The directors who served during the year and up to the date of the report are as stated below:

John Paul Bishop

Alex Eicke (resigned 30 April 2020)

Daniel Morris (resigned 30 April 2020)

Kathryn Herrick (resigned 30 May 2019)

Geoffrey Bicknell (appointed 5 September 2019, resigned 20 January 2020)

Timothy Bonnet

Iain Ferguson (resigned 18 July 2019)

Olivia Walker (resigned 5 April 2020)

Edward HM Guest (appointed 20 January 2020)

Donations

The Company made no political donations or incurred any political expenditure during the year.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

How Splendid Limited

Directors' Report for the year ended 31 March 2019 continued...

Financial Risk Management

The directors' financial risk management objective is to maximise financial assets and minimise financial liabilities.

The financial risks faced by the company include:

- Customer concentration & loss of a key client
- Foreign currency fluctuations; and
- Credit control & debtor management

The directors manage each of the above mentioned financial risks as follows:

- Actively review and approve the terms of the parties to significant commercial contracts where payment is not anticipated in advance;
- Review customer concentration regularly with a view to managing customer dependency;
- Hold cash and short-term investments in the currencies of anticipated expenditure; or match to revenue streams where applicable;
- Undertake regular debtor reviews to ensure timely collections and recoverability.

Going concern

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

The balance sheet at 31 March 2019 had net assets of £1.0m (2018: as restated £0.5m) and cash at bank and in hand of £2.3m (2018: £2.3m). Trading since 1 April 2019 has been profitable and in line with budgets and the directors' expectations and the unaudited result for the year ended 31 March 2020 shows a profit before tax of £686,000, net assets of £644,000 and cash at bank of £1,067,000. The cash generated by the company is part of a central treasury pooling facility maintained by its parent company, Unlimited Marketing Group Limited and the company is also a guarantor to the external finance to the group.

As a consequence in order to assess whether the going concern assessment of How Splendid Limited is appropriate, the directors have looked at the parent company's group cash flow forecasts for the period to 31 March 2022 to determine whether the Group will have sufficient operational liquidity over the following 18 months to meet its liabilities as they fall due.

A renegotiated group banking facility was signed on 17 December 2019. The key terms set out in the renegotiated term sheet include:

- Revised repayment terms,
- Revised quarterly covenant tests from 31 December 2019,
- Requirement for shareholder to inject additional funds which would be subordinated in favour of the banking facilities. The shareholder, DBay, injected £2,000,000 in August 2019 and the remaining £7,000,000 in December 2019.

The current group funding consists of a shareholder loan of £42,648,000 (unaudited) and various bank facilities of £17,750,000 (unaudited).

How Splendid Limited

Directors' Report for the year ended 31 March 2019 continued...

With ongoing market uncertainty as a result of the global COVID-19 crisis, the directors of Group have revised their group forecasts for the period to 31 March 2022 and as part of this assessment have included reasonable but severe downside scenarios which include:

- a further 10% decrease of revenue compared to actual results during lockdown; and
- the ability of the group to reactively reduce its cost base to mitigate the impact of any revenue decreases that may arise. Such costs include freelance expenses and payroll costs which can be adjusted in line with revenue decrease and minor office expenses that can be managed in case another lockdown happens.

In certain downside scenario outcomes, the Group would not have sufficient liquidity to continue operationally over the forecast period and work within the reduced overdraft facility of £2m and as a result alternative sources of finance would need to be obtained.

During the three months to 30 June 2020 the covenants of minimum EBITDA would have been breached, and an official waiver was obtained prior to this from the bank and a temporary liquidity covenant put in place limiting the contracted overdraft facility from £5m to £2m. The overdraft facility is contracted throughout entire forecast period. The covenant measurement points of Leverage ratio and Cashflow cover at 30 September 2020 and future measurement points are also expected to be breached in the base case and sensitised scenarios. Whilst the group expects a waiver and covenants reset to be received from the bank, at the date of signing this has not been received. Alternative sources of finance would be required if waivers were not obtained.

Given the company is dependant for its ongoing finance on the group's resources the uncertainties set out above have a direct consequence for the company's going concern assessment.

Based on these factors as set out above the directors of the company believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Statement of Disclosure of Information to Auditor

On 5th May 2017, KPMG LLP were appointed as auditor in place of PricewaterhouseCoopers LLP. 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.

In the case of each of the persons who were directors at the time this report was signed, the following applies:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware and;
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

How Splendid Limited

Directors' Report for the year ended 31 March 2019 continued...

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

In preparing this report, the directors have taken advantage of the small companies' exemptions provided by S415A of the Companies Act 2006.

This report was approved by the Board on 4th November 2020 and signed on its behalf by:



Edward Guest
Director

Company Number
Address of Registered Office

04692212
Unlimited House
10 Great Pulteney Street
London
W1F 9NB

How Splendid Limited

Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

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 Group and parent Company and of their profit or loss for that period. In preparing each of the Group and Parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent 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 Group or the parent 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 parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its 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 Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

How Splendid Limited

Independent Auditor's Report to the Members of How Splendid Limited

Opinion

We have audited the financial statements of How Splendid Limited ("the company") for the year ended 31 March 2019 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; 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.

Material uncertainty related to going concern

We draw attention to note 1.3 to the financial statements which indicates that the company is dependent on its ultimate parent undertaking to provide financial support at a time when both the company and its ultimate parent company's businesses are subject to high market volatility caused by the COVID-19 pandemic and the parent is dependent on obtaining of banking facility covenant waivers in the base case forecast scenario as well as the possible need for additional finance in severe but plausible scenarios. These events and conditions, along with the other matters explained in note 1.3, constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

How Splendid Limited

Independent Auditor's Report to the Members of How Splendid Limited continued...

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.

Adrian Wilcox (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London, UK

E14 5GL

04 November 2020

How Splendid Limited

Profit and Loss Account for the year ended 31 March 2019

	Notes	2019 £	As restated* 2018 £
Turnover (billings)		5,028,215	6,027,465
Rebillable expenses		(47,876)	-
Revenue		4,980,339	6,027,465
Cost of Services		(95,266)	(310,399)
Revenue	3	4,885,073	5,717,066
Administrative expenses	6	(4,373,625)	(6,160,490)
Operating profit		511,448	(443,424)
Profit before taxation		511,448	(443,424)
Taxation	7	(147,815)	(333,606)
Profit/(loss) for the financial year		363,633	(777,030)

All activities of the Company are derived from continuing operations in both the current and prior years.

No separate statement of comprehensive income has been presented as all such gains and losses have been dealt with in the Profit and Loss account above.

The notes on pages 11 to 25 form an integral part of these financial statements

How Splendid Limited

Balance Sheet as at 31 March 2019

	Notes	2019 £	As restated* 2018 £	As restated* 2017 £
Fixed assets				
Tangible assets	8	33,186	32,004	37,783
Current assets				
Debtors	9	779,734	2,285,134	664,033
Cash at bank and in hand		2,347,204	2,276,488	1,262,645
		<u>3,126,938</u>	<u>4,561,622</u>	<u>1,926,678</u>
Creditors: amounts falling due within one year				
Trade and other creditors	10	(1,792,903)	(3,762,968)	(2,029,943)
Income tax payable		(84,144)	(290,445)	(148,276)
		<u>(1,877,047)</u>	<u>(4,053,413)</u>	<u>(2,178,219)</u>
Net current assets		<u>1,249,891</u>	<u>508,209</u>	<u>(251,540)</u>
Total assets less current liabilities		<u>1,283,077</u>	<u>540,213</u>	<u>(213,758)</u>
Non-current liabilities				
Intercompany loans payable	13	(279,798)	-	-
Net assets		<u><u>1,003,279</u></u>	<u><u>540,213</u></u>	<u><u>(213,758)</u></u>
Capital and reserves				
Called up share capital	12	100	100	100
Capital redemption reserve		10	10	10
Profit and loss account		1,003,169	540,103	(213,868)
Shareholders' funds		<u><u>1,003,279</u></u>	<u><u>540,213</u></u>	<u><u>(213,758)</u></u>

The financial statements were approved by the Board on 4th November 2020, and were signed on its behalf by:



Edward Guest, Director
Registration number 04692212

How Splendid Limited

Statements of Changes in Equity for the year ended 31 March 2019

	Called Up Share Capital	Capital Redemption Reserve	Profit and Loss Account	Total Equity
	£	£	£	£
At 1 April 2017 before restatement	100	10	1,347,409	1,347,519
Prior year restatement	-	-	(1,561,277)	(1,561,277)
At 1 April 2017 restated	100	10	(213,868)	(213,758)
Profit or loss for the year	-	-	(777,030)	(777,030)
Total comprehensive income for the period	-	-	(777,030)	(777,030)
Equity settled share based payment	-	-	1,531,000	1,531,000
Balance at 31 March 2018	100	10	540,103	540,213
Balance at 1 April 2018	100	10	540,103	540,213
Total comprehensive income for the period	-	-	-	-
Profit or loss	-	-	363,633	363,633
Total comprehensive income for the period	-	-	363,633	363,633
Equity settled share based payment	-	-	99,433	99,433
Balance at 31 March 2019	100	10	1,003,169	1,003,279

The notes on pages 10 to 32 form an integral part of these financial statements

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

1 Accounting Policies

1.1 Basis of preparation

How Splendid Limited (the "Company") is a company incorporated and domiciled in England and Wales. The address of the registered office is Unlimited House, 10 Great Pulteney Street, London W1F 9NB.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements have been prepared under the historical cost convention, unless otherwise stated.

The Company's ultimate parent undertaking, Digital Unlimited Group Ltd includes the Company in its consolidated financial statements. The consolidated financial statements of Digital Unlimited Group Ltd are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Unlimited House, 10 Great Pulteney Street, London, W1F 9NB.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Disclosures in respect of capital management;
- Disclosures in respect of the compensation of Key Management Personnel;
- The effects of new but not yet effective IFRS.

As the consolidated financial statements of Unlimited Marketing Group Ltd include the equivalent disclosures, the Company has also taken further disclosure exemptions available under FRS 101.

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

1 Accounting Policies continued...

1.2 New IFRS accounting pronouncements

The following standards, amendments and interpretations are relevant to the Company, but not yet effective and have not been early adopted by the Company:

IFRS 16 'Leases' (effective for periods beginning on or after 1 April 2019).

IFRIC 23 -Uncertainty Over Income Tax Treatment (effective for periods beginning on or after 1 April 2019).

IFRS16 is a new standard which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The standard eliminates the classification of leases as either operating or finance leases as required by IAS 17, and instead, introduces a single lessee accounting model. A lessee will be required to recognise assets and liabilities for all leases with a term of more than 12 months and depreciated lease assets separately from interest in the income statement. The standard replaces IAS 17 'Leases'. The company is currently undergoing a review of IFRS 16 requirements in advance of the March 2020 year end.

Adoption of IFRS 16 will result in the company recognising right-of-use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the company does not recognise related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment.

The Company will adopt IFRS 16 effective 1 April 2019 on a modified retrospective basis and apply the standard retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application as an adjustment to retained earnings. Accordingly, prior year financial information will not be restated and will continue to be reported under IAS 17 Leases. The right-of-use asset and lease liability will initially be measured at the present value of the remaining lease payments, with the right-of-use asset being subject to certain adjustments.

IFRIC 23 – Uncertainty Over Income Tax Treatment is not anticipated to have an impact on the financial statements.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

The principal accounting policies applied in the preparation of these financial statements are set out below and on the following pages. These policies have been consistently applied to the Group and to the period presented, unless otherwise stated.

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

1 Accounting Policies continued...

1.2 New IFRS accounting pronouncements continued

In the current year, the following Standards and Interpretations became effective:

- IFRS 9 Financial Instruments; and
- IFRS 15 Revenue from Contracts with Customers.

Impact of the adoption of IFRS 9 financial instruments

The Company has adopted IFRS 9 Financial Instruments from 1 April 2018. Amounts classified as loans and receivables under IAS 39 Financial Instruments: Recognition and Measurement have been reclassified to amortised cost under IFRS 9. The requirement under IFRS 9 to use an expected loss method of impairment of financial assets did not have a material effect on the Company due to the short-term nature of the Company's trade and other receivables, which are mainly due from large national or multinational companies. The Company continues to apply the hedge accounting requirements of IAS 39, as permitted by IFRS 9.

Impact of the adoption of IFRS 15 revenue from contracts with customers

The Company has adopted IFRS 15 Revenue from Contracts with Customers from 1 April 2018 which resulted in changes in certain aspects of our accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Company has adopted the new rules under the modified cumulative effect method which recognises an adjustment at the initial date of application to opening equity. The new standard establishes a five-step model where consideration received or expected to be received is recognised as revenue when contractual performance obligations are satisfied by transferring control of the relevant goods or services to the customer.

The Company often enters into contracts with customers which include the provision of an array of services which are judged as representing a single performance obligation. Such instances arise where the over-arching objective of the contract is comprised of a number of discrete activities which are integrated into the provision of a wider overall service as defined by paragraph 22 of IFRS 15. See note 1.23 (b).

Under paragraph 35 (c) of the new standard an entity transfers control of a good or service over time if the entity's performance does not create an asset with alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. Due to the bespoke nature of the marketing services provided across the group and either a contractual or demonstrable right to bill for fees accrued in the event of termination of the contract by the customer, the overwhelming majority of revenue across the group is recognised over time as a proportion to progress towards completion. See note 1.23 (c).

This is measured using the input method based on cost to complete. Adopting IFRS 15 has therefore had a minimal impact on the timing of the Company's revenue recognition and on the Company's equity. See note 1.23 (d).

The adoption of IFRS 15 also resulted in a change in our accounting for certain third-party costs. Third-party costs are included in revenue when the Company acts as principal with respect to the services provided to the client and are excluded when the Company acts as agent. Under IFRS 15, the principal versus agent assessment is based on whether the Company controls the relevant services before they are transferred to the client.

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

1 Accounting Policies continued...

1.2 New IFRS accounting pronouncements continued

As a result of the adoption of IFRS 15, there was a decrease in third-party costs included in revenue and increase in third-party costs included in costs of services. This change increased revenue and costs of services by the same amount and therefore had no impact on gross profit. See note 1.23 (e).

Work in progress includes outlays incurred on behalf of clients, including production costs, and other third-party costs that have not yet been billed and are considered receivables under IFRS 15 and therefore have been reclassified to contract assets in the balance sheet. Similarly accrued income in respect of fees contractually billable to clients for work performed has also been reclassified to contract assets.

Conversely billings made up front in respect of work yet to be performed on behalf of the client have been reclassified from deferred revenue to contract liability in the balance sheet.

The cumulative effect of initially applying IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information has not been restated and continues to be as reported under Legacy IFRS.

The effect of the adoption IFRS 15 as at 1 April 2018 on the balance sheet is shown below.

As at 1 April 2018	Increase / (decrease) £
Assets	
Accrued income	(253,187)
Contract assets	253,187
Total assets	-

As at 1 April 2018	(Increase) / decrease £'000
Liabilities	
Contract liabilities	(234,434)
Deferred income	234,434
Total liabilities	-

Adopting IFRS 15 has not had a significant impact on the timing of the Company's recognition of revenue; on OCI; on the Company's operating, investing and financing cash flows; or on the Company's equity. The key drivers of the change relates to the classification of certain third-party costs.

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

1 Accounting Policies continued...

1.2 New IFRS accounting pronouncements continued

As a consequent result of the adoption of IFRS 15 there has been an increase in third party costs included in revenue and cost of sales during the year of £95,266 due to a reduction in the number of Agency relationships identified (and a corresponding increase in the number of transactions where the Company is acting as Principal). The impact of this is illustrated below.

	Legacy IFRS £	Third party cost £	IFRS 15 £
Billings	5,028,215	-	5,028,215
Revenue	4,885,073	95,266	4,980,339
Project cost	-	(95,266)	(95,266)
Gross profits	4,885,073	-	4,885,073

1.3 Going Concern

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

The balance sheet at 31 March 2019 had net assets of £1.0m (2018: as restated £0.5m) and cash at bank and in hand of £2.3m (2018: £2.3m). Trading since 1 April 2019 has been profitable and in line with budgets and the directors' expectations and the unaudited result for the year ended 31 March 2020 shows a profit before tax of £686,000, net assets of £644,000 and cash at bank of £1,067,000. The cash generated by the company is part of a central treasury pooling facility maintained by its parent company, Unlimited Marketing Group Limited and the company is also a guarantor to the external finance to the group.

As a consequence in order to assess whether the going concern assessment of How Splendid Limited is appropriate, the directors have looked at the parent company's group cash flow forecasts for the period to 31 March 2022 to determine whether the Group will have sufficient operational liquidity over the following 18 months to meet its liabilities as they fall due.

A renegotiated group banking facility was signed on 17 December 2019. The key terms set out in the renegotiated term sheet include:

- Revised repayment terms,
- Revised quarterly covenant tests from 31 December 2019,
- Requirement for shareholder to inject additional funds which would be subordinated in favour of the banking facilities. The shareholder, DBay, injected £2,000,000 in August 2019 and the remaining £7,000,000 in December 2019.

The current group funding consists of a shareholder loan of £42,648,000 (unaudited) and various bank facilities of £17,750,000 (unaudited).

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

1 Accounting Policies continued...

With ongoing market uncertainty as a result of the global COVID-19 crisis, the directors of Group have revised their group forecasts for the period to 31 March 2022 and as part of this assessment have included reasonable but severe downside scenarios which include:

- a further 10% decrease of revenue compared to actual results during lockdown; and
- the ability of the group to reactively reduce its cost base to mitigate the impact of any revenue decreases that may arise. Such costs include freelance expenses and payroll costs which can be adjusted in line with revenue decrease and minor office expenses that can be managed in case another lockdown happens.

In certain downside scenario outcomes, the Group would not have sufficient liquidity to continue operationally over the forecast period and work within the reduced overdraft facility of £2m and as a result alternative sources of finance would need to be obtained.

During the three months to 30 June 2020 the covenants of minimum EBITDA would have been breached, and an official waiver was obtained prior to this from the bank and a temporary liquidity covenant put in place limiting the contracted overdraft facility from £5m to £2m. The overdraft facility is contracted throughout entire forecast period. The covenant measurement points of Leverage ratio and Cashflow cover at 30 September 2020 and future measurement points are also expected to be breached in the base case and sensitised scenarios. Whilst the group expects a waiver and covenants reset to be received from the bank, at the date of signing this has not been received. Alternative sources of finance would be required if waivers were not obtained.

Given the company is dependant for its ongoing finance on the group's resources the uncertainties set out above have a direct consequence for the company's going concern assessment.

Based on these factors as set out above the directors of the company believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

1.4 Revenue

Turnover represents amounts received or receivable from clients for the rendering of services and is stated after deduction of trade discounts and excluding value-added tax or similar sales taxes outside the UK. Turnover includes the billing of the company's fees and commission, gross third-party cost of services of services in which the company acts as principal, and gross third-party billable expenses in which the company acts as agent.

Revenue comprises fees, commission, gross third-party cost of services whereby the company acts as principal, and net third-party billable expenses in which the company acts as agent. Recognition occurs as performance obligations are satisfied, in accordance with the terms of the contractual agreement. Typically, contracts are considered a single performance obligation, and are recognised over time. This revenue is recognised over time under the input method based off cost to complete. See note 1.2 in relation to the adoption of IFRS 15.

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

1 Accounting Policies continued...

The revenue derived from commissions on projects and fees for digital consultancy services are recognised on each contract in proportion to the level of services performed. Retainer fees are recognised on a straight-line basis over the contract period. The level of services performed is assessed based on the relevant criteria including proportion of costs incurred, time-based recognition for retainers and milestones. Incentive-based revenue is recognised when the relevant target has been met.

1.5 Revenue

Further details on revenue recognition in terms of the nature of contractual agreements are as follows:

Project fees for creative services

Where project fees relate to bespoke assignments carried out under contractual or demonstrable terms which entitle the company to payment for its performance to date in the event of contract termination, then fees are recognised over the period of the relevant assignments. The level of services performed is based off the total costs incurred to date as a percentage of total budgeted costs. This percentage of completion is corroborated with progress against agreed project milestones to ensure the level of work undertaken is in line with actual service delivery.

Retainers

Retainer fees relate to arrangements whereby there is an obligation to perform services to the customer on an ongoing basis over the life of the contract. The level of services performed is based on the total costs incurred to date as a proportion of the total cost committed under the retainer.

Third-party cost of services in which the company acts as principal

Cost of services comprise fees paid to external suppliers when they are engaged to perform part or all of a specific project and are charged directly to clients but where the company retains quality control oversight, such as production or research costs. The company acts as principal when it controls the specified good or service prior to transfer. When the company acts as a principal the revenue recorded is the gross amount billed. Out-of-pocket costs such as travel are also recognised at the gross amount billed with a corresponding amount recorded in cost of services.

Third-party rebillable expenses in which the Company acts as agent

Certain other arrangements with our clients are such that our responsibility is to arrange for a third party to provide a specified good or service to the client. In these cases, we are acting as an agent and we do not control the relevant good or service before it is transferred to the client. When the company is acting as an agent, the revenue is recorded at the net amount retained.

Gross profit comprises revenue less third-party cost of services.

1.6 Pension Costs

Retirement benefits to employees are provided by defined contribution schemes that are funded by the company and employees. Payments are made to pension trusts that are financially separate from the company. These costs are charged against profits as incurred.

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

1 Accounting Policies continued...

1.7 Current and deferred income tax

The income tax expense represents the sum of the tax currently payable and deferred tax. Tax is charged or credited in the Profit and Loss account, except when it relates to items recognised in other comprehensive income or directly to equity, in which case the deferred tax is also recognised in other comprehensive income or equity respectively.

The current income tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Profit and Loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of the deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

1.8 Dividends

Dividends distributed to the company's shareholders are recognised as a liability in the company's financial statements in the year in which the dividends are approved by the company's shareholders.

1.9 Tangible Assets

All tangible assets are stated at historical cost (or fair value on acquisition where appropriate) less depreciation. Historical cost includes expenditure that is directly attributable to bringing the asset to its working condition for its intended use. Depreciation is provided on all tangible assets at rates calculated to write off the cost, less the estimated residual value of each asset evenly over its expected useful economic life, as follows:

Equipment	- 3 Years
Fixtures and Fittings	- 5 Years

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

1 Accounting Policies continued...

1.10 Trade receivables and work in progress

Trade receivables are stated net of provisions for bad and doubtful debts. The company has adopted IFRS 9 Financial Instruments from 1 April 2018 which requires an expected loss method of impairment of financial assets to be used. The implementation of this did not have a material impact on the company.

The company has applied the simplified approach to measuring expected credit losses, as permitted by IFRS 9. Therefore the company does not track changes in credit risk, but recognises a loss allowance based on the financial asset's lifetime expected credit loss. The company measures expected credit losses based on the company's historical experience and informed credit assessment.

Work in progress includes outlays incurred on behalf of clients, including production costs, and other third-party costs that have not yet been billed and are considered receivables under IFRS 15 Revenue from Contracts with Customers.

1.11 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.12 Leases

Leases that do not transfer significant risk and reward are classified as operating leases and the payments made under them are charged to the Profit and Loss account on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

1.13 Financial instruments

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument. Issue costs are offset against the proceeds of such instruments.

1.14 Foreign currencies

Transactions in currencies other than the company's functional and presentational currency, Sterling, are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary assets and liabilities and those arising on retranslation are included within administrative expenses in the year in which the difference arose.

1.16 Share Capital

Share capital is stated at the value of allotted and paid up amount.

1.17 Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting policies. The deferred tax balance has not been discounted.

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

2 Critical Accounting Judgements

The company makes estimates and judgements concerning the future and the resulting estimates may, by definition, vary from the related actual results. The directors considered the critical accounting estimates and judgements used in the financial statements and concluded that the main areas are as follows:

Long term contracts

The company undertakes projects which have the characteristics of long-term contracts on behalf of its clients. At each balance sheet date, management estimates the stage of completion for each project based on time and specific project milestones, recognising income and associated costs appropriately. The deferred income balance of £97,773 and £261,822 for 2019 and 2018 respectively has been included as part of accruals and deferred income in note 11.

Provision for impairment of debtors

A provision for impairment of debtors is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the debtor is impaired. Management would exercise judgement over the evidence obtained as to the amount that should be provided for. The provisions for bad debts for 2018 and 2017 were £nil and £nil respectively.

Performance obligations

The Company often enters into contracts with customers which include the provision of an array of services which are judged as representing a single performance obligation. Such instances arise where the over-arching objective of the contract is comprised of a number of discrete activities which are integrated into the provision of a wider overall service. An example would be where the Company has been engaged to produce a client's media strategy. The formulation and delivery of this strategy is comprised of a number of individual services, but the delivery of the strategy is assessed as being the only performance obligation resident in the contract as the discrete services being supplied are not distinct in the context of the contract as a whole.

Management consider the following features of contractual arrangements entered into with customers when assessing whether a contract has a number of services which are not distinct and is thus comprised of a combined performance obligation:

- Can the client benefit from the individual goods or services promised in the contract on their own (or in combination with resources readily available to the client).
- Can a single method of measuring progress of satisfaction of the combined performance obligation be applied which faithfully depicts the economics of the arrangement.
- Is there a single payment mechanism for the combined performance obligation.
- Does the Company perform a significant service of integrating the services provided and are these promised services highly interdependent.

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

2 Critical Accounting Judgements continued

Revenue recognition over time

Where project fees relate to bespoke assignments carried out under contractual or demonstrable terms which entitle the Company to payment for its performance to date in the event of contract termination, then fees are recognised over the period of the relevant assignments. Management exercises judgement when determining whether contracts are bespoke and, in the absence of a contracted right to bill, in determining whether there is a legal and professional precedent to do so in the relevant industry.

Revenue recognition and percentage of completion

In determining the level of services performed management must determine the percentage of completion, which is an estimate due to the inherent uncertainty in forecasting total budgeted hours. Management also exercises judgement around the accuracy of percentage of completion estimates through detailed discussions with those individuals directly involved in the relevant projects. For further details see the revenue accounting policy note 1.4.

Evaluation of third-party costs as principal or agent

The Company enters into contracts with customers which include arrangements where it purchases services or goods from third parties on behalf of the client. In these instances, the Company considers the substance of the overall contract in order to assess whether such arrangements constitute the Company acting as either an Agent or as Principal. The adoption of 'IFRS 15 Revenue from contracts with customers' has significantly changed this assessment (compared to legacy IFRS) and, as disclosed in note 1.2, led to an increase in revenue recognised as Principal and an identical reduction in revenue which would otherwise have been recognised as Agency. This change is the most significant effect of the adoption of 'IFRS 15 Revenue from contracts with customers'. The key judgement the Company make when assessing whether they are acting as an Agent in a contractual relationship relates to whether they control either the good or the service prior to transfer to the customer. This assessment includes consideration of the following indicators of control:

- Is the Company responsible for fulfilling the promise to provide the goods or services in an acceptable format or to a satisfactory quality to meet the customer requirements?
- Does the Company direct the activity of the other party performing the service?
- Does the Company provide a service of integrating or combining the third-party goods or services with other goods or services?

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

3 Revenue

By Activity

all revenues are derived from the company's principal activity of graphic design and internet consultancy

	2019 £	2018 £
By Geographical Area		
UK	4,885,073	5,507,915
Rest of Europe	-	178,631
Rest of World	-	30,520
	4,885,073	5,717,066

4 Staff numbers and costs

	2019 £	2018 £
Staff costs comprise		
Wages and salaries	1,308,776	1,207,783
Social security costs	80,859	141,993
Other pension costs	67,337	34,667
	1,456,972	1,384,443

	number	number
Monthly Average number of persons (including executive directors) employed by the company		
Directors	3	3
Administration	4	4
Production	11	11
	18	18

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

5	Directors' remuneration	2019	2018
		£	£
	Directors' remuneration	513,532	514,669
	Amounts receivable under share-based payments scheme	99,430	1,531,000
		612,962	2,045,669

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £235,311 (2018: £903,783), and company contributions of £0 (2018: £0) were made to a money purchase scheme on his behalf.

Highest paid director	2019	2018
Salaries and other short-term benefits	151,835	151,983
Share based payments	33,143	510,333
Deemed remuneration	50,333	241,467
Aggregate emoluments	235,311	903,783

6	Expenses and auditor's remuneration	2019	2018
	Included in the profit/loss are the following:	£	£
	Staff Costs	1,456,972	1,342,175
	Freelancer Costs	2,252,764	2,088,787
	Property Related Costs	240,413	253,190
	Office and General Costs	95,399	121,960
	Depreciation	14,754	18,442
	Audit of these financial statements	5,040	5,040
	Deemed Remuneration	151,000	724,403
	Share Based Payment Charge	99,430	1,531,000
	Other Expenses	57,853	75,003
		4,373,625	6,160,000

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

7 Taxation

	2019 £	2018 £
The tax expense comprises:		
Current Tax		
Corporation tax at 19% (2018: 19%)	133,136	341,445
(Over) / Under provision of corporation tax in previous year	14,461	(8,023)
Total current tax	147,597	333,422
Deferred Tax		
Origination and reversal of timing differences	217	184
Adjustments in respect of prior periods	1	-
Total Deferred Tax	218	184
Income tax expense for the year	147,815	333,606

The tax rate for the year is different from the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained below:

	2019 £	2018 £
Profit before taxation	511,448	(443,325)
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	97,175	(84,232)
Effects of:		
Expenses not deductible for tax purposes	50,664	432,219
Adjust tax charge in respect of previous periods	14,461	(8,023)
Adjust tax charge in respect of previous periods – Deferred Tax	1	(278)
Adjust closing deferred tax to average rate of 19%	58	83
Adjust opening deferred tax to average rate of 19%	(83)	(32)
R&D Tax credits	(14,461)	(6,131)
Tax charge for the year	147,815	333,606

Factors affecting future tax charges:

Reductions in the UK corporation tax rate from 21% to 20% (effective from 1 April 2016) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2016. An additional reduction to 17% (effective from April 2020) was announced in the Budget on 16 March 2017.

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

8 Tangible Fixed Assets

	Fixtures, Fittings & Equipment £	Total £
Cost		
At 1 April 2017	85,566	85,566
Additions	12,663	12,663
Disposals	-	-
At 31 March 2018 and 1 April 2018	98,229	98,229
Additions	15,937	15,937
Disposals	-	-
At 31 March 2019	114,166	114,166
Accumulated Depreciation		
At 1 April 2017	47,783	47,783
Charge for the year	18,443	18,443
Disposal for the year	-	-
At 31 March 2018 and 1 April 2018	66,226	66,226
Charge for the year	14,754	14,754
Disposal for the year	-	-
At 31 March 2019	80,980	80,980
Net Book Value		
At 31 March 2018	32,004	32,004
At 31 March 2019	33,186	33,186

Depreciation charges have been charged through operating costs in the Profit and Loss account.

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

9 Debtors

	2019 £	2018 £
Trade Debtors	267,919	895,037
Amounts owed by group undertakings	434,270	1,169,311
Other receivables	388	399
Contract asset	76,665	219,677
Deferred Tax Asset	492	710
	<u>779,734</u>	<u>2,285,134</u>

10 Creditors: falling due within one year

	2019 £	2018 £
Trade Creditors	450,457	557,023
Social Security and other taxes	246,110	346,128
Accruals and deferred income	319,355	854,472
Contract liabilities	97,773	234,434
Other payables	8,778	2,880
Amounts due to fellow subsidiary companies	464,127	1,097,728
Financial instruments	206,303	670,303
	<u>1,792,903</u>	<u>3,762,968</u>

Trade Creditors and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The directors consider that the carrying amount of trade creditors approximates to their fair value. Amounts owed to group undertakings are interest free and repayable on demand.

The carrying amounts of the trade creditors are denominated in Pounds Sterling entirely.

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

11 Deferred tax asset

The deferred tax asset of £492 (2018 Asset: £710) recognised in the financial statements is set out below:

	2019 £	2018 £
Accelerated capital allowances	(710)	(894)
	<u>(710)</u>	<u>(894)</u>

The movement in the year is analysed as follows:

As at 1 April	(710)	(894)
Income Statement	218	184
As at 31 March	<u>(492)</u>	<u>(710)</u>

The company has recognised deferred tax assets where there are forecast profits in the next twelve months from which the future reversal of the underlying timing differences can be deducted.

The rate of UK corporation tax changed from 20% to 19% on 1 April 2017 and will decrease further to 17% from 1 April 2020. As deferred tax assets and liabilities are measured at the rates that are expected to apply in the periods of the reversal, deferred tax balances at 31 March 2019 have been calculated using a rate of 19%. The impact of this reduction was not material to the company's tax charge.

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

12 Called up share capital

	2019 £	2018 £
Authorised		
51,480 (2018: 51,480) Ordinary A Shares of £0.001 each	51	51
49,462 (2018: 49,462) Ordinary B Shares of £0.001 each	49	49
	<u>100</u>	<u>100</u>
Allocated, called up and fully paid		
51,480 (2018: 51,480) Ordinary A Shares of £0.001 each	51	51
49,462 (2018: 49,462) Ordinary B Shares of £0.001 each	49	49
	<u>100</u>	<u>100</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

13 Related Party Transactions

As part of a group, How Splendid enter into many transactions with other group members. These are summarised below. Charges for shared central management and facilities costs were billed by Tullo Marshall Warren Ltd and Digital Unlimited Group Ltd. Also, billing to clients for multi-agency contracts is usually performed through one group company. In 2019, invoices were raised to Tullo Marshall Warren and Unlimited Group United Ltd for billing on to their clients.

	Sales 2019 £	Sales 2018 £	Expenses 2019 £	Expenses 2018 £
DJMPAN Unlimited Limited	-	2,795	-	-
Walnut Unlimited Ltd	16,000	-	21,270	10,416
Nelson Bostock Unlimited Ltd	-	-	208	1,150
Tullo Marshall Warren Ltd	4,172,958	2,761,373	44,991	259,887
Loooped Unlimited	-	-	-	30,000
Unlimited Group United Ltd	116,144	472,764	-	-
Digital Unlimited Group Ltd	13,972	-	-	277,323
Health UK	29,031	-	-	-

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

13 Related Party Transactions continued...

As at 31 March 2019 and 31 March 2018, the company had the following outstanding balances with related parties:

	Receivables Outstanding 2019	Receivables Outstanding 2018	Creditors Outstanding 2019	Creditors Outstanding 2018
	£	£	£	£
Walnut Unlimited Ltd	-	-	-	2,580
Nelson Bostock Unlimited Ltd	-	-	-	96
Tullo Marshall Warren Ltd	436,464	1,049,608	-	240,911
Unlimited Group United Ltd	-	-	-	30,300
Digital Unlimited Group Ltd	-	119,704	279,798	-
Health UK	(2,194)	-	-	-

Key management personnel compensation, consisting of directors' remuneration, has been disclosed in Note 5 on page 23.

14 Ultimate controlling party

The Company is a subsidiary undertaking of Unlimited Marketing Group Limited which is the ultimate parent company incorporated in the United Kingdom. The ultimate controlling party is Douglas Bay Capital II Fund LP, which is incorporated in Jersey. There are no publicly available financial statements for Douglas Bay Capital II Fund LP.

The largest group in which the results of the Company are consolidated is that headed by Unlimited Marketing Group Limited.

The consolidated financial statements of these groups may be obtained from the company's registered address at Unlimited House, 10 Great Pulteney Street, London, W1F 9NB.

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

15 Prior period restatements

Review of impact of the shareholder's agreement – share based payments and contractual dividends

In 2015, 51% of the shares in How Splendid were purchased by its parent company, Digital Unlimited Group Limited, with an arrangement to acquire the remaining 49% in the future. As the acquisition price of the remaining 49% was dependent upon future service of the former shareholders and other performance conditions, the arrangement should have been treated by Digital Unlimited Group Limited as an acquisition of 100% with any future consideration expected to be settled in respect of the purchase of the remaining 49% being treated as separate share-based payment arrangement with the previous owners.

The share-based payment arrangements were settleable, at the parent's choice, in either shares or cash. The intention of the parent has always been to settle the award in cash. The awards are settleable in two tranches of 24.5% each, in year 2019 and 2020. The first of these awards was settled in FY19. As the previous owners are now employees of How Splendid and as the parent company is not recharging the cost of the award, the Company should have recognised an equity settled share based payment arrangement.

Separately to the above, the Company and all the shareholders entered into an agreement in 2015 that stipulates that, until the end of the share based payment arrangement in 2020, the Company is obligated to pay all of its future realised profits to the legal shareholders. As the amounts payable to the 49% minority partner are only payable if the shareholders remain in employment, no obligation arises until the service is provided. However, as the obligation to pay the future profits to the 51% legal shareholder is unconnected to employment the Company should have recognised this obligation, recognised as a dividend, at the present value of the expected future payments at the time of entering into the agreement in 2015.

The Company has chosen to treat the amounts payable to the 49% minority partner as an employee cost in the period in which the obligation arises.

The effect of these adjustments is recognised below:

For the year ended 31 March 2018 the equity settled share based payment expense recognised in operating costs was £1,531,000. As the amount was added back in reserves this had no effect on net assets at 31 March 2018.

In respect of the 49% element of the shareholder agreement, as at 31 March 2018 (1 April 2017) an accrual in respect of the legal dividends on the 49% shareholding referred to above, of £791,534 (1 April 2017: £67,131) arose with a corresponding reduction in retained earnings at 1 April 2017 of £67,131 and an increase in employee expense of £724,403, recognised in profit and loss for the year ended 31 March 2018.

In respect of the 51% element of the shareholder agreement, a dividend and the associated obligation recognised in 2015 resulted in an increase to creditors and a reduction to retained earnings, as at 1 April 2017 of £1,494,145.

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

15. Prior period restatements continued...

There was no adjustment to corporation tax.

The following tables summarise the impacts of each of the adjustments on the Group's consolidated financial statements:

1 April 2017 in £'000	As previously reported	Adjustment	As restated
Total Assets	1,964	-	1,964
Accruals and deferred income	(269)	(67)	(336)
Intercompany payables	(3)	(70)	(73)
Financial instruments	-	(1,424)	(1,424)
Other Liabilities	(345)	-	(345)
Total liabilities	(617)	(1,561)	(2,178)
Retained earnings	(1,347)	1,561	214
Other Equity	-	-	-
Total equity	(1,347)	1,561	214
31 March 2018 in £'000	As previously reported	Adjustment	As restated
Total Assets	4,594	-	4,594
Accruals and deferred income	(297)	(792)	(1,089)
Intercompany payables	(274)	(824)	(1,098)
Financial instruments	-	(670)	(670)
Other Liabilities	(1,196)	-	(1,196)
Total liabilities	(1,767)	(2,286)	(4,054)
Retained earnings	(2,826)	2,286	(540)
Other Equity	-	-	-
Total equity	(2,826)	2,286	(540)

How Splendid Limited

Notes to the Financial Statements for the year ended 31 March 2019

15. Prior period restatements continued...

For the year ended 31 March 2018 in £'000	As previously reported	Adjustment	As restated
Operating costs	(3,905)	(2,255)	(6,160)
Loss	1,478	(2,255)	(777)