

Gravity London Limited

Annual Report and Financial Statements

For the year ended 31 December 2019

Company Registration No. 06749773 (England and Wales)

Gravity London Limited

Company Information

| | |
|--------------------------|---|
| Directors | M Lethbridge P Anderson S Feast |
| Secretary | S Feast |
| Company number | 06749773 |
| Registered office | 69 Wilson Street London United Kingdom EC2A 2BB |
| Auditor | Moore Kingston Smith LLP Charlotte Building 17 Gresse Street London W1T 1QL |
| Business address | 69 Wilson Street London United Kingdom EC2A 2BB |

Gravity London Limited

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Gravity London Limited

Strategic Report

For the year ended 31 December 2019

The directors present the strategic report for the year ended 31 December 2019.

Background

On 18 January 2019, Gravity London Limited (the "Company") was acquired by Gravity Global Limited ("Gravity Global"). On the same day Gravity Global acquired JJ Marketing Limited (now Gravity Oxford Limited).

On 7 October 2019 Gravity Global Limited acquired 100% of the issued share capital of Further Digital Marketing Ltd.

The acquisitions completed in 2019 form part of a broader strategy to build out a global B2B marcomms business capable of delivering brand-to-demand marketing communication activities on a global scale. Further acquisitions are expected in 2020 as we build out our service offerings and expand into new markets outside of the UK and Europe.

Gravity Global was named UK Agency of the Year in The Drum Business Marketing Awards and U.S. B2B Marketing Communications Agency of the Year at the B2B Marketing Elevation Awards. These significant achievements highlight our continued expertise in business to business marketing communications on a global scale. As a result, client retention and acquisition continue to hit new benchmarks and ensure revenues are sustainable.

Fair review of the business

The directors are pleased with the performance of the Company in 2019. The Company grew steadily over the course of the year, benefitting from its growing base of retained clients with overall net revenue (gross profit) reaching £7.5m for the year, which is an 18% increase on the 12 months to 31 Dec 2018.

The Company's results for the prior period were for a 7-month period hence the results shown in these accounts for 2019 and 2018 are not fully comparable. We highlight that as part of the sale to Gravity Global professional fees were incurred by the Company which negatively impacted margins in the year albeit they remained very strong.

Gravity London Limited

Strategic Report (Continued)

For the year ended 31 December 2019

Principal risks and uncertainties

Economic uncertainty

In common with all businesses, the performance of the Company will be influenced by the general economic environment. The Company closely monitors leading market indicators particularly within sectors in which our major clients and suppliers operate. In addition, we work closely with all of our clients and suppliers to ensure that we remain informed of how their businesses are performing and the key challenges that they face. The Company reforecasts, as a minimum, on a quarterly basis and closely monitors its cash flow. It has historically and will continue to act promptly and decisively to address its business operations and cost base as and when trading or cash flow circumstances dictate.

Client retention

Our businesses are focussed on delivering the very best in strategic thinking, research, creative offering and campaign planning, offering a premium service for our valued clients. We deliver this pro-active approach every day by regularly monitoring and responding to our clients' needs and pre-agreed KPI's. Many of our clients work with us on a retained basis which provides greater contractual certainty for all parties.

Credit and cash flow risk

The Company, in common with all others, is potentially exposed to the risk of non-recovery of its debts. This risk is mitigated through close liaison with our clients, understanding their businesses by credit checking and having credit limits in place for all customers. In addition, the Company operates a robust credit control regime and wherever possible, credit insures the majority of its clients.

Trade creditors' liquidity risk is managed by ensuring sufficient funds are available to meet debts as they fall due. At the year end the Company had cash of £4.3m available to it. The Company's long-term business forecasts support the view that the Company will have adequate resources to meet its debts as they fall due for the foreseeable future and for at least 12 months from the signing of these financial statements.

Exchange rate fluctuations

A significant part of the Company's activity is UK based but for its material overseas trade it mitigates exchange rate risk to a greater extent by ensuring that its overseas customers settle, and their related suppliers are paid, via the Company's US Dollar and Euro bank accounts wherever possible.

Covid-19

Although Covid-19 impacted the business due to client marketing budgets being adjusted downwards, our strong retained client base has enabled the business to weather the storm better than many in our sector. The Company responded to the crisis by developing and launching a strategic framework on how to communicate during a crisis. Our 4R's initiative (Respond, Re-imagine, Rebound, Recovery) gained a significant amount of traction, especially on social media, and was adopted by many of our clients. Our primary focus has been managing the impact on our staff by supporting them and their families and on our clients by ensuring that they can continue to receive the same high quality of service from us that they always have, regardless of where the team is based.

Gravity London Limited

Strategic Report (Continued)

For the year ended 31 December 2019

Key performance indicators

The key performance indicators monitored by the directors are those that best demonstrate the financial performance and strength of the Company. Specifically, we look at year on year trends as follows:

- Profit and loss account
 - Net revenue (gross profit)
 - EBITDA margin
 - Staff cost to net revenue ratio
 - Net revenue per FTE & staff cost per FTE
- Balance sheet
 - Debtor and creditor days
 - Operating and free cash conversion
 - The level of net current assets and cash balances to monitor the financial health and liquidity of the Company.

Gross profit / net revenue was £7.5m (7m to Dec 2018: £3.7m). When compared to the 12 months to 31 December 2018, the Company achieved net revenue growth of £1.2m (18% increase).

The Company ended the year with cash at bank and in hand of £4.3m (2018: £4.4m) and net assets of £6.1m (2018: £5.2m) as at 31 December 2019.

Events after the reporting date

There were no reportable events after the reporting date.

On behalf of the board

M Lethbridge
Director
2 November 2020

Gravity London Limited

Directors' Report

For the year ended 31 December 2019

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

Principal activities

The principal activity of the company continued to be that of providing integrated marketing services.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

M Lethbridge
P Anderson
S Feast

Results and dividends

The results for the year are set out on page 9.

Ordinary dividends were paid amounting to £800,000. The directors do not recommend payment of a final dividend.

Auditor

Moore Kingston Smith LLP were appointed as auditor to the company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

Gravity London Limited

Directors' Report (Continued)

For the year ended 31 December 2019

On behalf of the board

M Lethbridge

Director

2 November 2020

Gravity London Limited

Independent Auditor's Report

To the Members of Gravity London Limited

Opinion

We have audited the financial statements of Gravity London Limited (the 'company') for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Gravity London Limited

Independent Auditor's Report (Continued)

To the Members of Gravity London Limited

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Gravity London Limited

Independent Auditor's Report (Continued)

To the Members of Gravity London Limited

As part of an audit in accordance with ISAs (UK) we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of our report

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

Esther Carder (Senior Statutory Auditor)
for and on behalf of Moore Kingston Smith LLP

18 November 2020

Chartered Accountants
Statutory Auditor

Charlotte Building
17 Gresse Street
London
W1T 1QL

Gravity London Limited

Statement of Comprehensive Income

For the year ended 31 December 2019

| | | Year ended 31 December 2019 £ | Period ended 31 December 2018 £ |
|---|-----------|---|---|
| | Notes | | |
| Turnover | 3 | 13,125,209 | 6,613,567 |
| Cost of sales | | (5,588,730) | (2,914,677) |
| Gross profit | | 7,536,479 | 3,698,890 |
| Administrative expenses | | (5,551,365) | (2,568,649) |
| Other operating income | | 146,038 | - |
| Exceptional item | 4 | (334,702) | - |
| Operating profit | 5 | 1,796,450 | 1,130,241 |
| Share of results of associates and joint ventures | | 13,500 | - |
| Interest receivable and similar income | 9 | 645 | 5,310 |
| Interest payable and similar expenses | 10 | (993) | (3,576) |
| Profit before taxation | | 1,809,602 | 1,131,975 |
| Taxation | 11 | (156,450) | (230,764) |
| Profit for the financial year | | 1,653,152 | 901,211 |

The Profit And Loss Account has been prepared on the basis that all operations are continuing operations.

Gravity London Limited

Balance Sheet

As at 31 December 2019

| | Notes | 2019 £ | £ | 2018 £ | £ |
|--|-------|--------------------|------------------|--------------------|------------------|
| Fixed assets | | | | | |
| Tangible assets | 14 | | 108,256 | | 119,236 |
| Current assets | | | | | |
| Debtors | 18 | 4,566,457 | | 2,680,232 | |
| Cash at bank and in hand | | 4,298,418 | | 4,373,155 | |
| | | <u>8,864,875</u> | | <u>7,053,387</u> | |
| Creditors: amounts falling due within one year | 19 | <u>(2,906,193)</u> | | <u>(1,943,513)</u> | |
| Net current assets | | | <u>5,958,682</u> | | <u>5,109,874</u> |
| Total assets less current liabilities | | | 6,066,938 | | 5,229,110 |
| Creditors: amounts falling due after more than one year | 20 | | - | | (15,324) |
| Provisions for liabilities | 22 | | <u>(7,195)</u> | | <u>(7,195)</u> |
| Net assets | | | <u>6,059,743</u> | | <u>5,206,591</u> |
| Capital and reserves | | | | | |
| Called up share capital | 24 | | 1,500,000 | | 1,500,000 |
| Profit and loss reserves | | | <u>4,559,743</u> | | <u>3,706,591</u> |
| Total equity | | | <u>6,059,743</u> | | <u>5,206,591</u> |

The financial statements were approved by the board of directors and authorised for issue on 2 November 2020 and are signed on its behalf by:

M Lethbridge
Director

Company Registration No. 06749773

Gravity London Limited

Statement of Changes in Equity

For the year ended 31 December 2019

| | | Share capital | Profit and loss reserves | Total |
|--|-------|---------------|-----------------------------|-----------|
| | Notes | £ | £ | £ |
| Balance at 1 June 2018 | | 1,500,000 | 3,117,380 | 4,617,380 |
| Period ended 31 December 2018: | | | | |
| Profit and total comprehensive income for the period | | - | 901,211 | 901,211 |
| Dividends | 12 | - | (312,000) | (312,000) |
| Balance at 31 December 2018 | | 1,500,000 | 3,706,591 | 5,206,591 |
| Year ended 31 December 2019: | | | | |
| Profit and total comprehensive income for the year | | - | 1,653,152 | 1,653,152 |
| Dividends | 12 | - | (800,000) | (800,000) |
| Balance at 31 December 2019 | | 1,500,000 | 4,559,743 | 6,059,743 |

Gravity London Limited

Notes to the Financial Statements

For the year ended 31 December 2019

1 Accounting policies

Company information

Gravity London Limited is a private company limited by shares incorporated in England and Wales. The registered office is 69 Wilson Street, London, United Kingdom, EC2A 2BB.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest pound.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 4 'Statement of Financial Position' – Reconciliation of the opening and closing number of shares;
- Section 7 'Statement of Cash Flows' – Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

The financial statements of the company are consolidated in the financial statements of Gravity Global Limited. These consolidated financial statements are available from its registered office, which is the same as the company's.

Gravity London Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

1 Accounting policies

(Continued)

1.2 Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

The company made a profit for the year of £1,653,152 and as at the balance sheet date had net assets of £6,059,743. Subsequent to the year end, there has been the global impact of the Coronavirus (COVID-19) pandemic. The company remains profitable since the year end and has sufficient cash reserves for the short term. The company has assessed the potential risks and the impact on the business as a result of the pandemic. The company does not have a high level of fixed costs, however should there be a negative impact, a cost deferral and reduction plan will be put in place in order to minimise the impact of any potential risks. This will be proportionate to any anticipated drop off in revenues and cash inflows.

As a result the directors are confident that they have the ability to respond effectively to continued uncertainty and as a result, the directors believe that the company will be able to continue to meet its liabilities as they fall due for a period of at least twelve months from the date of approval of the financial statements.

1.3 Reporting period

The company's prior period was shortened to 31 December 2018. As a result comparative amounts presented in the financial statements, including the related notes, are not entirely comparable.

1.4 Turnover

Turnover is recognised at the fair value of the consideration received or receivable for services provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

When cash inflows are deferred and represent a financing arrangement, the fair value of the consideration is the present value of the future receipts. The difference between the fair value of the consideration and the nominal amount received is recognised as interest income.

Revenue from contracts for the provision of professional services is recognised by reference to the stage of completion when the stage of completion, costs incurred and costs to complete can be estimated reliably. The stage of completion is calculated by comparing costs incurred, mainly in relation to contractual hourly staff rates and materials, as a proportion of total costs. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

1.5 Intangible fixed assets - goodwill

Goodwill represents the excess of the cost of acquisition of unincorporated businesses over the fair value of net assets acquired. It is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is considered to have a finite useful life and is amortised on a systematic basis over its expected life, which is 3 to 7 years.

1.6 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Gravity London Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

1 Accounting policies

(Continued)

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

| | |
|------------------------------|----------------------------|
| Leasehold land and buildings | Over the life of the lease |
| Fixtures and fittings | 20% straight line |
| Computer equipment | 25% straight line |
| Motor vehicles | 20% straight line |

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1.7 Fixed asset investments

Interests in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

An associate is an entity, being neither a subsidiary nor a joint venture, in which the company holds a long-term interest and where the company has significant influence. The company considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associate.

Entities in which the company has a long term interest and shares control under a contractual arrangement are classified as jointly controlled entities.

1.8 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Gravity London Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

1 Accounting policies

(Continued)

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.9 Cash at bank and in hand

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.10 Financial instruments

The company only has basic financial instruments measured at amortised cost, with no financial instruments classified as other or basic instruments measured at fair value.

1.11 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.12 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable 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 tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end 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. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Gravity London Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

1 Accounting policies

(Continued)

1.13 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.14 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1.15 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the assets fair value at the date of inception and the present value of the minimum lease payments. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to the profit and loss account so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

1.16 Foreign exchange

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

Gravity London Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Revenue Recognition

Revenue from contracts is assessed on an individual basis with revenue earned being ascertained based on the stage of completion of the contract which is estimated using a combination of the milestones in the contract and the time spent to date compared to the total time expected to be required to undertake the contract. Estimates of the total time required to undertake the contracts are made on a regular basis and subject to management review.

Useful economic lives of tangible assets

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 14 for the carrying amount of the property, plant and equipment and note 1.6 for the useful economic lives for each class of asset.

Impairment of debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 18 for the net carrying amount of the debtors and associated impairment provision.

3 Turnover and other revenue

| | 2019 £ | 2018 £ |
|---|-------------------|-------------------|
| Turnover analysed by class of business | | |
| Rendering of services | 13,125,209 | 6,613,567 |
| | <u> </u> | <u> </u> |
| | 2019 £ | 2018 £ |
| Other significant revenue | | |
| Interest income | 645 | 5,310 |
| | <u> </u> | <u> </u> |

Gravity London Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

| 3 Turnover and other revenue | | (Continued) | |
|---|-------------------|--------------------|-------------|
| | 2019 | 2018 | |
| | £ | £ | |
| Turnover analysed by geographical market | | | |
| UK | 6,717,553 | 3,372,919 | |
| Europe | 879,171 | 392,779 | |
| Rest of World | 5,528,485 | 2,847,869 | |
| | <u>13,125,209</u> | <u>6,613,567</u> | |
| 4 Exceptional costs | | | |
| | 2019 | 2018 | |
| | £ | £ | |
| Exceptional item | 334,702 | - | |
| | <u>334,702</u> | <u>-</u> | |
| Exceptional item relates to group restructuring costs. | | | |
| 5 Operating profit | | 2019 | 2018 |
| | | £ | £ |
| Operating profit for the period is stated after charging/(crediting): | | | |
| Exchange losses/(gains) | 77,361 | (96,221) | |
| Depreciation of owned tangible fixed assets | 43,328 | 25,734 | |
| Depreciation of tangible fixed assets held under finance leases | 5,141 | 2,999 | |
| Operating lease charges | 380,853 | 96,083 | |
| | <u>406,683</u> | <u>124,805</u> | |
| 6 Auditor's remuneration | | 2019 | 2018 |
| | | £ | £ |
| Fees payable to the company's auditor and associates: | | | |
| For audit services | | | |
| Audit of the financial statements of the company | 18,500 | 15,000 | |
| | <u>18,500</u> | <u>15,000</u> | |
| For other services | | | |
| All other non-audit services | 1,600 | 4,945 | |
| | <u>1,600</u> | <u>4,945</u> | |

Gravity London Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

7 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

| | 2019 Number | 2018 Number |
|----------------------------|----------------|----------------|
| Creative and PR | 46 | 38 |
| Finance and administration | 8 | 8 |
| | <u>54</u> | <u>46</u> |

Their aggregate remuneration comprised:

| | 2019 £ | 2018 £ |
|-----------------------|------------------|------------------|
| Wages and salaries | 2,865,870 | 1,249,976 |
| Social security costs | 318,676 | 136,112 |
| Pension costs | 47,661 | 17,695 |
| | <u>3,165,937</u> | <u>1,403,783</u> |

8 Directors' remuneration

| | 2019 £ | 2018 £ |
|---|----------------|----------------|
| Remuneration for qualifying services | 583,981 | 199,615 |
| Company pension contributions to defined contribution schemes | 3,565 | 806 |
| | <u>587,546</u> | <u>200,421</u> |

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 3 (2018 - 3).

Remuneration disclosed above include the following amounts paid to the highest paid director:

| | 2019 £ | 2018 £ |
|---|----------------|---------------|
| Remuneration for qualifying services | 201,075 | 69,987 |
| Company pension contributions to defined contribution schemes | 1,188 | 269 |
| | <u>202,263</u> | <u>70,256</u> |

Gravity London Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

9 Interest receivable and similar income

| | 2019 | 2018 |
|---------------------------|------------|--------------|
| | £ | £ |
| Interest income | | |
| Interest on bank deposits | 645 | 5,310 |
| | <u>645</u> | <u>5,310</u> |

10 Interest payable and similar expenses

| | 2019 | 2018 |
|--|------------|--------------|
| | £ | £ |
| Interest on finance leases and hire purchase contracts | 993 | 579 |
| Other interest on financial liabilities | - | 2,997 |
| | <u>993</u> | <u>3,576</u> |

11 Taxation

| | 2019 | 2018 |
|--|----------------|----------------|
| | £ | £ |
| Current tax | | |
| UK corporation tax on profits for the current period | 379,539 | 220,642 |
| Adjustments in respect of prior periods | (7,890) | 7,890 |
| Group tax relief | (215,199) | - |
| | <u>156,450</u> | <u>228,532</u> |
| Deferred tax | | |
| Origination and reversal of timing differences | - | 2,232 |
| | <u>-</u> | <u>2,232</u> |
| Total tax charge | <u>156,450</u> | <u>230,764</u> |

Gravity London Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

11 Taxation

(Continued)

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

| | 2019 £ | 2018 £ |
|---|-----------|-----------|
| Profit before taxation | 1,809,602 | 1,131,975 |
| <i>Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)</i> | 343,824 | 215,075 |
| Tax effect of expenses that are not deductible in determining taxable profit | 36,417 | 7,259 |
| Group relief | (215,199) | - |
| Permanent capital allowances in excess of depreciation | (702) | (1,692) |
| Under/(over) provided in prior years | (7,890) | 7,890 |
| Movement on deferred tax | - | 2,232 |
| Taxation charge for the period | 156,450 | 230,764 |

12 Dividends

| | 2019 £ | 2018 £ |
|--------------|-----------|-----------|
| Interim paid | 800,000 | 312,000 |

13 Intangible fixed assets

| | Goodwill £ |
|--|---------------|
| Cost | |
| At 1 January 2019 and 31 December 2019 | 4,124,393 |
| Amortisation and impairment | |
| At 1 January 2019 and 31 December 2019 | 4,124,393 |
| Carrying amount | |
| At 31 December 2019 | - |
| At 31 December 2018 | - |

Gravity London Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

14 Tangible fixed assets

| | Leasehold land and buildings | Fixtures and fittings | Computer equipment | Motor vehicles | Total |
|------------------------------------|---------------------------------|--------------------------|-----------------------|----------------|---------|
| | £ | £ | £ | £ | £ |
| Cost | | | | | |
| At 1 January 2019 | 71,006 | 165,512 | 272,310 | 25,705 | 534,533 |
| Additions | - | - | 37,489 | - | 37,489 |
| At 31 December 2019 | 71,006 | 165,512 | 309,799 | 25,705 | 572,022 |
| Depreciation and impairment | | | | | |
| At 1 January 2019 | 42,619 | 159,929 | 207,179 | 5,570 | 415,297 |
| Depreciation charged in the year | 7,104 | 3,249 | 32,975 | 5,141 | 48,469 |
| At 31 December 2019 | 49,723 | 163,178 | 240,154 | 10,711 | 463,766 |
| Carrying amount | | | | | |
| At 31 December 2019 | 21,283 | 2,334 | 69,645 | 14,994 | 108,256 |
| At 31 December 2018 | 28,387 | 5,583 | 65,131 | 20,135 | 119,236 |

The net carrying value of tangible fixed assets includes the following in respect of assets held under finance leases or hire purchase contracts.

| | 2019 £ | 2018 £ |
|--|-----------|-----------|
| Motor vehicles | 14,994 | 20,135 |
| Depreciation charge for the year in respect of leased assets | 5,141 | 2,999 |

15 Fixed asset investments

| | 2019 £ | 2018 £ |
|-----------------------------|-----------|-----------|
| Investments in subsidiaries | - | - |

16

Gravity London Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

15 Fixed asset investments (Continued)

Movements in fixed asset investments

Shares in group undertakings

£

Cost or valuation

At 1 January 2019 & 31 December 2019

6,000,000

Impairment

At 1 January 2019 & 31 December 2019

6,000,000

Carrying amount

At 31 December 2019

-

At 31 December 2018

-

16 Subsidiaries

Details of the company's subsidiaries at 31 December 2019 are as follows:

| Name of undertaking | Registered office key | Nature of business | Class of shares held | % Held | |
|------------------------------|-----------------------|--------------------|----------------------|--------|----------|
| | | | | Direct | Indirect |
| AGA Consult Limited | 1 | Dormant | Ordinary | 100.00 | 0 |
| The A.G.A Group Limited | 1 | Dormant | Ordinary | 100.00 | 0 |
| AGA Public Relations Limited | 1 | Dormant | Ordinary | 100.00 | 0 |
| Projcet Gravity Limited | 1 | Dormant | Ordinary | 100.00 | 0 |
| Gravity Worldwide Limited | 1 | Dormant | Ordinary | 100.00 | 0 |

Registered Office addresses:

1 69 Wilson Street, London, United Kingdom, EC2A 2BB

17 Joint ventures

Details of the company's joint ventures at 31 December 2019 are as follows:

| Name of undertaking | Registered office | Nature of business | Class of shares held | % Held | |
|---------------------|-------------------|------------------------|----------------------|--------|----------|
| | | | | Direct | Indirect |
| AGA Consult LLP | 1 (see above) | Management consultancy | Interest | 50.00 | 0 |

Gravity London Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

18 Debtors

| | 2019 £ | 2018 £ |
|---|------------------|------------------|
| Amounts falling due within one year: | | |
| Trade debtors | 1,487,048 | 2,257,339 |
| Corporation tax recoverable | 56,834 | 56,834 |
| Amounts due from group undertakings | 2,721,243 | - |
| Amounts due from undertakings in which the company has a participating interest | - | 92,400 |
| Other debtors | 8,385 | 220,136 |
| Prepayments and accrued income | 292,947 | 53,523 |
| | <u>4,566,457</u> | <u>2,680,232</u> |

19 Creditors: amounts falling due within one year

| | Notes | 2019 £ | 2018 £ |
|---|-------|------------------|------------------|
| Obligations under finance leases | 21 | 15,324 | 3,927 |
| Trade creditors | | 627,661 | 775,376 |
| Amounts due to group undertakings | | 72,476 | - |
| Amounts due to undertakings in which the company has a participating interest | | 19,553 | - |
| Corporation tax | | 164,340 | 652,157 |
| Other taxation and social security | | 391,673 | 289,847 |
| Other creditors | | 139,645 | - |
| Accruals and deferred income | | 1,475,521 | 222,206 |
| | | <u>2,906,193</u> | <u>1,943,513</u> |

20 Creditors: amounts falling due after more than one year

| | Notes | 2019 £ | 2018 £ |
|----------------------------------|-------|-----------|---------------|
| Obligations under finance leases | 21 | - | 15,324 |
| | | <u>-</u> | <u>15,324</u> |

21 Finance lease obligations

| | 2019 £ | 2018 £ |
|--|---------------|---------------|
| Future minimum lease payments due under finance leases: | | |
| Within one year | 15,324 | 3,927 |
| In two to five years | - | 15,324 |
| | <u>15,324</u> | <u>19,251</u> |

Gravity London Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

21 Finance lease obligations

(Continued)

Finance lease payments represent rentals payable by the company for a motor vehicle. The lease includes purchase options at the end of the lease period, and no restrictions are placed on the use of the asset. The lease term is 3 years and the lease is on a fixed repayment basis.

22 Provisions for liabilities

| | Notes | 2019 £ | 2018 £ |
|--------------------------|-------|-----------|-----------|
| Deferred tax liabilities | 23 | 7,195 | 7,195 |

23 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

| | Liabilities 2019 £ | Liabilities 2018 £ |
|--------------------------------|--------------------------|--------------------------|
| Balances: | | |
| Accelerated capital allowances | 7,195 | 7,195 |

There were no deferred tax movements in the year.

24 Share capital

| | 2019 £ | 2018 £ |
|--------------------------------------|-----------|-----------|
| Ordinary share capital | | |
| Issued and fully paid | | |
| 500,000 Ordinary A Shares of £1 each | 500,000 | 500,000 |
| 500,000 Ordinary B Shares of £1 each | 500,000 | 500,000 |
| 500,000 Ordinary C Shares of £1 each | 500,000 | 500,000 |
| | 1,500,000 | 1,500,000 |

All shares rank equally.

Gravity London Limited

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

25 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2019 £ | 2018 £ |
|----------------------------|----------------|----------------|
| Within one year | 249,500 | 166,500 |
| Between two and five years | 480,250 | 481,645 |
| | <u>729,750</u> | <u>648,145</u> |

26 Related party transactions

As permitted by FRS 102 Section 33 "related party disclosures", the financial statements do not disclose transactions with the immediate parent company and wholly owned fellow subsidiaries on the basis that group financial statements are prepared.

During the year, the company purchased services from AGA Consult LLP, 50% of which is owned by Gravity London Limited, of £280,509 (2018: £186,410). During the year, a profit share of £13,500 was receivable from AGA Consult LLP.

At the balance sheet date, an amount of £19,553 was due to AGA Consult LLP (2018: £92,400 was due from).

During the year, the company provided services to a company in which a director is related by virtue of family interest. The total value of services provided was £58,615 (2018: £nil). At the year end, there was accrued income of £28,239 (2018: £nil) in relation to these services.

27 Directors' transactions

At the year end, an aggregate amount of £1,685 (2018: £214,018) was owed to the company by two of the directors. During the year, a total of £2,289 (2018: £176,469) was advanced to the directors and a total of £214,622 (2018: £159,262) was repaid by the directors.

28 Controlling party

During the year, 100% of the share capital of the company was purchased by Gravity Global Limited.

The immediate and ultimate parent undertaking is Gravity Global Limited, a company incorporated in England and Wales.

Gravity Global Limited is the smallest and largest group for which consolidated financial statements including the company are prepared. The consolidated financial statements of Gravity Global Limited are available from its registered office, 69 Wilson Street, London, United Kingdom, EC2A 2BB.

The directors consider there to be no single ultimate controlling party.

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