

Company Registration No. 07557982 (England and Wales)

SILKFRED LTD
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

SILKFRED LTD

COMPANY INFORMATION

Directors	Miss E Watkinson Mr S Jackson Miss C Jackson
Company number	07557982
Registered office	The Old Truman Brewery 91 Brick Lane London E1 6QL
Auditor	KPMG LLP 15 Canada Square London E14 5GL
Business address	The Old Truman Brewery 91 Brick Lane London E1 6QL

SILKFRED LTD

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SILKFRED LTD

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present the strategic report for the year ended 31 December 2021.

Review of the business

The company has seen an increase in revenue by 32.5% from £17,289,678 to £22,911,822 and an increase in EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) from a loss of £1,133,251 to a profit of £1,227,683. EBITDA is reconciled to the income statement on page 10 as follows:

	2021	2020
	£	£
Loss before taxation as reported	(311,500)	(2,335,687)
Depreciation and amortisation	1,072,893	884,812
Finance income	(1,493)	(1,728)
Finance expenses	467,783	318,447
EBITDA	1,227,683	(1,133,251)
Share based payment charges	23,038	100,810
EBITDA before share based payments	1,250,721	(1,032,441)

There was a continued focus on developing the company's research and development, with expenditure in the year of £1,912,927 reflecting the company's continued commitment to laying the foundations for future growth along with tightening both administrative and variable costs which resulted in increased EBITDA profits in 2021 of £1,227,683.

As a consequence, the business expects to be well placed for profitable growth fuelling growth in both our traditional categories and new categories.

The statement of comprehensive income for the company is set out on page 10.

The directors remain committed to investing in infrastructure that supports growth and efficiencies along with continued improvement in customer experience.

Going concern

The financial statements have been prepared on the going concern basis which the Directors consider appropriate for the reasons outlined below.

During the year the company made a profit after tax of £88,336 (2020 a loss of £1,938,368). At the balance sheet date, it held cash of £2,268,351 (2020 £2,877,129) and total assets of £9,786,331 (2020 £8,683,129). The profits incurred in 2021 are a result of our focus on keeping fixed costs tight through an uncertain year and a relentless focus on driving up return on marketing spend.

It should be noted also that in December 2022 further long term financing of £3m has been agreed for the company, including £0.6m of equity funding which has the impact of converting the £2.39m Future Fund Convertible Loan into equity and therefore removing the liability from the company's balance sheet.

The company's business model means that it is well suited to remote working and can control costs in response to changes in the market. Costs for warehousing are variable and most importantly marketing costs can be controlled on a daily basis with no campaign commitments. With only short term leased premises and the ability to flex staff costs based on the needs of the business, management are able to control costs as required.

The directors have prepared monthly cash flow forecasts for the period of up to 31 December 2023 to determine whether the company will retain operational liquidity. This included considering reasonably plausible downsides where sales are impacted by a worsening economic environment and it has been demonstrated through recent economic crisis so far that due to the variable cost base management are able to protect liquidity if needed and therefore the company expects to have adequate cash resources to continue in operational existence for the foreseeable future.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on the going concern basis.

SILKFRED LTD

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

Principal risks and uncertainties

In addition to the effects of the government's reaction to the COVID-19 crisis described above, other risks and uncertainties to which the business is exposed are as follows:

Technology and research and development

Continued success is dependent in part on our ability to maintain and develop our online presence in a highly competitive environment. This is an area of continued focus for the board.

Revenue growth

To date the business model has been to invest heavily in driving revenue growth. The directors intend to pursue this model for the time being. It is possible that liquidity constraints arising from factors described elsewhere could slow the rate of the company's growth.

Competition

As noted above, the company operates in a highly competitive sector and there is always threat from competitors. The company needs well-motivated and skilled staff and a reliable and adaptable supply chain. Reward structures and the functioning of our supply chain are reviewed on a regular basis. The directors do not consider the withdrawal of the UK from the EU as a significant threat to the operation of our supply chain.

Changes to tax policy

There is continued risk of unfavourable government tax changes such as reductions in R&D credits, an introduction of an online sales tax and increases in corporation tax.

Financial instruments

Details of the company's financial instruments and risks associated therewith are given in notes 18 to 22 to the financial statements.

On behalf of the board

Mr S Jackson

Director

23 December 2022

SILKFRED LTD

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their directors' report and financial statements of Silkfred Limited ("the company") for the year ended 31 December 2021.

Principal activities

The principal activity of the company continued to be that of providing an online market place for independent fashion brands.

Directors

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

Miss E Watkinson
Mr S Jackson
Miss C Jackson

Dividends

The board do not recommend the payment of a dividend (2020 : none).

Donations

The company made no political donations during the year (2020 : none).

Financial instruments

The company finances its activities with a combination of equity shares, warrants, cash and loans. Other financial assets and liabilities, such as trade receivables and trade payables, arise directly from the Company's operating activities. There are no financial instruments used by the Company which give rise to material risks.

Research and development activities

The Company is involved in research and development activities concerning the continuous development of the website, internal management systems and apps. The Company's technical staff and contractors continue to develop and deliver technical advances, processes and innovations through the resolution of technical uncertainties in an effort to ensure that the website and apps reflect the Company's image as a high quality internet e-commerce marketplace provider. The website and its related platforms are central to the Company's continued operation.

Post reporting date events

In December 2022 the directors agreed terms for a further £3m (£600,000 of equity and £2.4 million as convertible debt) of additional financing. Terms for the convertible debt are as follows:

- 5 year term
- 8% interest, non-compounding to be paid in equity
- In the event of a conversion, a 20% discount to the pre-money valuation with a valuation cap on conversion of £28m

Disclosure of information to the auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- (a) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- (b) they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

SILKFRED LTD

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

The report was approved by the Board and signed on its behalf by:

Mr S Jackson
Director
23 December 2022

SILKFRED LTD

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

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

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

SILKFRED LTD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SILKFRED LTD

Opinion

We have audited the financial statements of Silkfred Limited ("the Company") for the year ended 31 December 2021 which comprise the statement of profit and loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, 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 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

SILKFRED LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF SILKFRED LTD

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue arises from non-complex, individually low value retail transactions which reduces the opportunity to process fictitious sales.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts, including those journals that impacted cash where the corresponding entry was to an unusual account.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, data protection laws, anti-bribery, and employment law. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

SILKFRED LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF SILKFRED LTD

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, 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.

SILKFRED LTD

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF SILKFRED LTD

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

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

Richard Johnson (Senior Statutory Auditor)
For and on behalf of KPMG LLP
Statutory Auditor
Chartered Accountants

23 December 2022

15 Canada Square
London
E14 5GL

SILKFRED LTD

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

		2021	2020
	Notes	£	£
Gross Merchandise Value	1.18	66,039,085	46,362,200
Revenue	5	22,911,822	17,289,678
Cost of sales		(6,212,249)	(4,969,353)
Gross profit		16,699,573	12,320,325
Other operating income	5	93,739	378,351
Distribution costs		(5,600,940)	(4,296,830)
Administrative expenses		(9,914,095)	(9,225,219)
Separately disclosed items	4	(27,556)	(209,068)
Earnings before interest, taxes, depreciation and amortisation and share based payments		1,250,721	(1,032,441)
Depreciation and amortisation		(1,072,893)	(885,717)
Share based payment expenses		(23,038)	(100,810)
Operating profit/(loss)	6	154,790	(2,018,968)
Comprising			
Underlying operating profit/(loss)		177,828	(1,918,158)
Share based payment expenses		(23,038)	(100,810)
		154,790	(2,018,968)
Finance income	10	1,493	1,728
Finance expense	11	(467,783)	(318,447)
Loss before taxation		(311,500)	(2,335,687)
Income tax credit	12	399,836	397,319
Profit/(loss) for the year		88,336	(1,938,368)
Profit/(loss) and total comprehensive income for the year	29	88,336	(1,938,368)

The statement of profit and loss and other comprehensive income has been prepared on the basis that all operations are continuing operations.

The notes on pages 15 - 38 form part of these financial statements.

SILKFRED LTD

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Notes	2021 £	2020 £
Non-current assets			
Intangible assets	13	3,873,097	3,016,264
Property, plant and equipment	14	51,438	51,145
		<u>3,924,535</u>	<u>3,067,409</u>
Current assets			
Inventories	15	2,642,143	2,148,805
Trade and other receivables	16	157,206	195,526
Current tax recoverable		794,096	394,260
Cash and cash equivalents		2,268,351	2,877,129
		<u>5,861,796</u>	<u>5,615,720</u>
Total assets		<u>9,786,331</u>	<u>8,683,129</u>
Current liabilities			
Trade and other payables	23	4,047,033	3,722,988
Borrowings	24	5,833	-
		<u>4,052,866</u>	<u>3,722,988</u>
Net current assets		<u>1,808,930</u>	<u>1,892,732</u>
Non-current liabilities			
Borrowings	24	44,167	-
Convertible loan notes	21	3,036,783	2,419,000
		<u>3,080,950</u>	<u>2,419,000</u>
Total liabilities		<u>7,133,816</u>	<u>6,141,988</u>
Net assets		<u><u>2,652,515</u></u>	<u><u>2,541,141</u></u>

SILKFRED LTD

STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2021

	Notes	2021 £	2020 £
Equity			
Called up share capital	27	330	330
Share premium account	28	14,339,390	14,339,390
Share-based payment reserve		614,577	591,539
Retained earnings	29	(12,301,782)	(12,390,118)
Total equity		<u>2,652,515</u>	<u>2,541,141</u>

The financial statements were approved by the board of directors and authorised for issue on 23 December 2022 and are signed on its behalf by:

Mr S Jackson

Director

Company Registration No. 07557982

SILKFRED LTD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

		Share capital	Share premium account	Share-based payment reserve	Retained earnings	Total
	Notes	£	£	£	£	£
Balance at 1 January 2020		330	14,339,390	490,729	(10,451,750)	4,378,699
Year ended 31 December 2020:						
Loss and total comprehensive income for the year		-	-	-	(1,938,368)	(1,938,368)
Credit to equity for equity settled share-based payments	26	-	-	100,810	-	100,810
Balance at 31 December 2020		<u>330</u>	<u>14,339,390</u>	<u>591,539</u>	<u>(12,390,118)</u>	<u>2,541,141</u>
Year ended 31 December 2021:						
Profit and total comprehensive income for the year		-	-	-	88,336	88,336
Credit to equity for equity settled share-based payments	26	-	-	23,038	-	23,038
Balance at 31 December 2021		<u>330</u>	<u>14,339,390</u>	<u>614,577</u>	<u>(12,301,782)</u>	<u>2,652,515</u>

SILKFRED LTD

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021	2020
	£	£
Profit/(loss) for the year after tax	88,336	(1,938,368)
Taxation credited	(399,836)	(397,319)
Finance costs	-	139,447
Investment income	(1,493)	(1,728)
Loss on disposal of property, plant and equipment	423	905
Amortisation and impairment of intangible assets	1,056,094	775,715
Depreciation and impairment of property, plant and equipment	16,376	109,098
Fair value losses	467,783	179,000
Equity settled share based payment expense	23,038	100,810
Movements in working capital:		
(Increase)/decrease in inventories	(493,338)	448,830
Decrease in trade and other receivables	38,320	21,840
Increase/(decrease) in trade and other payables		
	324,045	(220,909)
Cash generated from/(absorbed by) operations	1,119,748	(782,679)
Cash flows from operating activities		
Cash generated from/(absorbed by) operations	1,119,748	(782,679)
Interest paid	-	(139,447)
Income taxes (paid)/refunded	-	730,829
Net cash inflow/(outflow) from operating activities	1,119,748	(191,297)
Investing activities		
Purchase of intangible assets	(1,912,927)	(1,388,307)
Purchase of property, plant and equipment	(17,092)	(10,284)
Interest received	1,493	1,728
Net cash used in investing activities	(1,928,526)	(1,396,863)
Financing activities		
Issue of convertible loans	150,000	2,240,000
Proceeds of bank loans	50,000	-
Net cash generated from financing activities	200,000	2,240,000
Net (decrease)/increase in cash and cash equivalents	(608,778)	651,840
Cash and cash equivalents at beginning of year	2,877,129	2,225,289
Cash and cash equivalents at end of year	2,268,351	2,877,129
Relating to:		
Cash at bank and in hand	2,268,351	2,877,129

The notes on pages 15 - 38 form part of these financial statements.

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

Company information

Silkfred Ltd ("the company") is a private company limited by shares incorporated in England and Wales. The registered office is The Old Truman Brewery, 91 Brick Lane, London, E1 6QL.

1.1 Accounting convention

The financial statements have been prepared in accordance with UK-adopted international accounting standards (IFRS) and applicable law. The financial statements have been prepared on the historical cost basis as modified for the revaluation of certain financial liabilities at fair value. The principal accounting policies adopted are set out below.

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 £.

1.2 Going concern

The financial statements have been prepared on the going concern basis which the directors consider appropriate for the reasons outlined below.

During the year the company made a profit after tax of £88,336 (2020 a loss of £1,938,368). At the balance sheet date, it held cash of £2,268,351 (2020 £2,877,129) and total assets of £9,786,331 (2020 £8,683,129). The profits incurred in 2021 are a result of our focus on keeping fixed costs tight through an uncertain year and a relentless focus on driving up return on marketing spend.

It should be noted also that in December 2022, further long term financing of £3m has been agreed for the company, including £0.6m of equity funding which has the impact of converting the £2.39m Future Fund Convertible Loan into equity and therefore removing the liability from the company's balance sheet.

The company's business model means that it is well suited to remote working and can control costs in response to changes in the market. Costs for warehousing are dependent on stock movements and most importantly marketing costs can be controlled on a daily basis with no campaign commitments. With only short term leased premises and the ability to flex staff costs based on the needs of the business, management are able to control costs as required.

The directors have prepared monthly cash flow forecasts for the period of up to 31 December 2023 to determine whether the company will retain operational liquidity. This included considering reasonably plausible downsides where sales are impacted by a worsening economic environment. It has been demonstrated through recent economic crisis so far that due to the variable cost base management are able to protect liquidity if needed and therefore the company expects to have adequate cash resources to continue in operational existence for the foreseeable future.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on the going concern basis.

1.3 Revenue

Revenue is measured at the fair value of amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes. The Company's accounting policy under IFRS 15 is that revenue is recognised when the Company satisfies performance obligation by transferring control over promised goods or services to a customer. This typically transfers at the same time the customer takes possession or use of the goods or services. A provision is recognised for expected returns based on historical experience.

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

(Continued)

1 Accounting policies

When the Company acts as a commercial intermediary between brands and final customers, revenue recognised represents commission earned on the rendering of services by the Company. The services rendered are comprised principally of e-commerce platform services as well as shipping and payment services provided by the Company. The Company recognises commission and other service revenue when goods are dispatched to the final customer. Promotional incentives may be periodically offered to final customers to drive traffic to the platform and hence increase our commission. Where the costs of promotional incentives are borne by the Company, these costs are recognised in cost of sales within the statement of profit and loss and other comprehensive income.

1.4 Intangible assets other than goodwill

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses. Expenditure on research activities is recognised in the statement of profit and loss and other comprehensive income as an expense as incurred.

Amortisation

Amortisation is charged to the statement of profit and loss and other comprehensive income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- capitalised development costs 3 - 5 years

1.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Fixtures and fittings	20% straight line
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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 recognised in the statement of profit and loss and other comprehensive income.

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

(Continued)

1 Accounting policies

1.6 Impairment of tangible and intangible assets

At each reporting 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. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually.

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.

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.

1.7 Inventories

Inventories are stated at the lower of cost and net realisable value, on a first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses. Cost of purchase comprises the purchase price including import duties and taxes, transport and handling costs and any other directly attributable costs, less trade discounts.

A provision is made to write down slow moving or obsolete inventory to net realisable value.

1.8 Fair value measurement

IFRS 13 establishes a single source of guidance for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The resulting calculations under IFRS 13 affected the principles that the company uses to assess the fair value, but the assessment of fair value under IFRS 13 has not materially changed the fair values recognised or disclosed. IFRS 13 mainly impacts the disclosures of the company. It requires specific disclosures about fair value measurements and disclosures of fair values, some of which replace existing disclosure requirements in other standards.

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

(Continued)

1 Accounting policies

1.9 Classification of financial instruments issued by the Company

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Financial liabilities are classified as measured at fair value through profit or loss when the financial liability contains an embedded derivative.

Financial liabilities at fair value through profit or loss are stated at fair value with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined by discounting expected cashflows from the instrument, taking into account the risk of default and cashflows from the expected exercise of the derivative, at market rates of interest.

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

(Continued)

1 Accounting policies

1.10 Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment value.

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all of the risk and reward of ownership to another entity.

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

(Continued)

1 Accounting policies

1.11 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 statement of profit and loss 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 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 generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary 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 statement of profit and loss, 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.

1.12 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 inventories or non-current 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.

1.13 Retirement benefits

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

1.14 Share-based payments

Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted using a Monte Carlo model. The fair value is recognised as an employee expense, with a corresponding increase in equity over the period in which the employee becomes unconditionally entitled to the award.

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

(Continued)

1 Accounting policies

When the terms and conditions of equity-settled share-based payments at the time they were granted are subsequently modified, the fair value of the share-based payment under the original terms and conditions and under the modified terms and conditions are both determined at the date of the modification. Any excess of the modified fair value over the original fair value is recognised over the remaining vesting period in addition to the grant date fair value of the original share-based payment. The share-based payment expense is not adjusted if the modified fair value is less than the original fair value.

Cancellations or settlements (including those resulting from employee redundancies) are treated as an acceleration of vesting and the amount that would have been recognised over the remaining vesting period is recognised immediately.

1.15 Leases

At inception, the company assesses whether a contract is, or contains, a lease within the scope of IFRS 16. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Where a tangible asset is acquired through a lease, the company recognises a right-of-use asset and a lease liability at the lease commencement date. Right-of-use assets are included within property, plant and equipment, apart from those that meet the definition of investment property.

The company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less, or for leases of low-value assets including IT equipment. The payments associated with these leases are recognised in the statement of profit and loss and other comprehensive income on a straight-line basis over the lease term.

1.16 Financing income and expenses

Financing expenses comprise interest payable and net foreign exchange losses that are recognised in the income statement. Financing income comprise interest receivable and net foreign exchange gains. Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

1.17 Grants

Government grants are recognised when there is reasonable assurance that the grant conditions will be met and the grants will be received.

1.18 Foreign currencies

The Company's financial statements are presented in GBP which is also the Company's functional currency. Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

1.19 Gross Merchandise Value

Gross Merchandise Value ("GMV") is the total value of all transactions taking place across the Company marketplace stated gross of value added tax and customer returns and excludes delivery receipts.

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

2 Adoption of new and revised standards and changes in accounting policies

The IFRS financial information has been drawn up on the basis of accounting standards, interpretations and amendments effective at the beginning of the accounting period.

There are currently no new or revised standards, amendments and interpretations to existing standards that are not effective for the financial year ended 31 December 2021 and have not been adopted early, which, when effective, might have an impact upon the Company's financial statements.

3 Critical accounting estimates and judgements

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, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

Critical judgements

The directors' judgements concerning the useful life of development cost intangible assets is considered critical to the preparation of the financial statements.

Key sources of estimation uncertainty

Useful life of development cost intangible

The directors estimate the useful life of capitalised development costs on the basis of estimates of future revenues and costs. Changes in these estimates might lead to impairment or increased amortisation charges.

Factors relevant to measurement of convertible loan at fair value through profit and loss

In estimating the fair value of the convertible loan at the balance sheet date, the directors need to make estimates of:

- future interest rates;
- the company's share price;
- the estimated term of the instrument;
- the company's credit risk ;
- volatility of the company's share price;
- future fundraising.

- In estimating future interest rates the directors have prepared a monte carlo model that takes as its starting point applicable yield curves at the valuation date and applies reasonable volatility assumptions, based on historical volatility, to those yield curves.
- The company's share price is estimated on the basis of recent transactions in the company's own shares.
- The estimated term of the instrument factors in the directors' expectation at the balance sheet date of when conversion or redemption is likely to occur. In making their estimate, the directors also consider when it is most likely that future fundraising will occur
- Credit risk is estimated using a synthetic credit rating based on publicly available methodologies applied by rating agencies.
- Share price volatility is estimated based upon historical volatility of comparable companies.;

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

4 Separately disclosed items

	2021 £	2020 £
Warehouse costs	-	(146,068)
Legal expenses	-	(63,000)
Financing costs	(27,556)	-
	<u>(27,556)</u>	<u>(209,068)</u>

In 2020, the company changed its logistics arrangements, involving agreeing contractual terms with a new warehouse partner, relocating its stock to new warehouse facilities and training staff on the use of new systems.

5 Revenue

An analysis of the company's revenue is as follows:

	2021 £	2020 £
Revenue analysed by class of business		
Sale of goods	15,555,228	11,216,035
Rendering of services	7,356,594	6,073,643
	<u>22,911,822</u>	<u>17,289,678</u>

	2021 £	2020 £
Revenue analysed by geographical market		
United Kingdom	20,360,581	15,128,597
Rest of the world	2,551,241	2,161,081
	<u>22,911,822</u>	<u>17,289,678</u>

	2021 £	2020 £
Other significant income		
Interest income	1,493	1,728
Grants received	93,739	378,351
	<u>95,232</u>	<u>380,079</u>

Grant income derives from Covid-19 related government support initiatives and in particular the furlough scheme.

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

6 Operating profit/(loss)

	2021	2020
	£	£
Operating profit/(loss) for the year is stated after charging/(crediting):		
Exchange losses	3,463	601
Government grants	(93,739)	(378,351)
Depreciation of tangible fixed assets	16,376	109,098
Loss on disposal of tangible fixed assets	423	905
Amortisation of intangible assets	1,056,094	775,715
Cost of inventories recognised as an expense	6,212,249	4,470,390
Share-based payments	23,038	100,810
	<u> </u>	<u> </u>

7 Auditor's remuneration

	2021	2020
	£	£
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the company	73,000	64,000
	<u> </u>	<u> </u>
For other services		
Tax services	111,090	26,309
	<u> </u>	<u> </u>

8 Directors' remuneration

	2021	2020
	£	£
Remuneration for qualifying services	413,750	341,118
Company pension contributions to defined contribution schemes	-	1,665
	<u> </u>	<u> </u>
	413,750	342,783
	<u> </u>	<u> </u>

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

Remuneration for qualifying services	281,250	171,000
	<u> </u>	<u> </u>

9 Employees

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

2021	2020
Number	Number
55	65
<u> </u>	<u> </u>

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

9 Employees (Continued)

Their aggregate remuneration comprised:

	2021 £	2020 £
Wages and salaries	3,018,349	3,085,370
Social security costs	344,648	343,063
Pension costs	42,810	57,950
	<u>3,405,807</u>	<u>3,486,383</u>

£752,737 (2020 £698,796) of employee costs were capitalised as part of the research & web development costs intangible fixed asset.

In addition there were share-based payments charges recognised in the year of £23,038 (2020 £100,810).

10 Finance income

	2021 £	2020 £
Interest income		
Bank deposits	1,493	1,728
	<u>1,493</u>	<u>1,728</u>

Total interest income for financial assets that are not held at fair value through profit or loss is £1,493 (2020 - £1,728).

11 Finance expense

	2021 £	2020 £
Fair value gains and losses	467,783	179,000
Interest payable	-	139,447
	<u>467,783</u>	<u>318,447</u>

12 Income tax credit

	2021 £	2020 £
Current tax		
UK corporation tax for the current period	-	-
Research and development tax credit for the year	(399,836)	(394,260)
Adjustments in respect of prior periods	-	(3,059)
	<u>(399,836)</u>	<u>(397,319)</u>

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

12 Income tax credit

(Continued)

In the March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the company's future tax charge.

The charge for the year can be reconciled to the loss per the income statement as follows:

	2021 £	2020 £
Loss before taxation	(311,500)	(2,335,687)
Expected tax credit based on a corporation tax rate of 19.00%	(59,185)	(443,781)
Effect of expenses not deductible in determining taxable profit	9,235	23,777
Effects of surrender of losses for R&D tax credit at 14.5%	124,087	122,356
R&D tax credit enhanced expenditure deduction	(372,996)	(292,000)
Change in unrecognised deferred tax asset in respect of losses	372,765	343,313
Adjustment in respect of prior years	-	(3,059)
Effect of change in UK corporation tax rate	(473,742)	(147,925)
Taxation credit for the year	(399,836)	(397,319)

As a result of the surrender of losses of £2.5 million (2020-£2.7 million), the company will receive an R&D tax credit of £399,836 (2020-£394,260).

There are losses of approximately £7.9 million (2020-£8.4 million) for which a deferred tax asset amounting to approximately £2 million (2020-£1.26 million) has not been recognised on the basis that it is not probable that there will be future taxable profits available against which the asset can be utilised.

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

13 Intangible assets

	Development costs £
Cost	
At 1 January 2020	3,501,058
Additions	1,388,307
At 31 December 2020	4,889,365
Additions	1,912,927
At 31 December 2021	6,802,292
Amortisation and impairment	
At 1 January 2020	1,097,386
Charge for the year	775,715
At 31 December 2020	1,873,101
Charge for the year	1,056,094
At 31 December 2021	2,929,195
Carrying amount	
At 31 December 2021	3,873,097
At 31 December 2020	3,016,264

The amortisation charge is recognised in administrative expenses. Capitalised development costs are not treated as a realised loss for the purpose of determining the company's distributable profits as the cost meet the conditions requiring them to be treated as an asset in accordance with IAS 38.

14 Property, plant and equipment

	Fixtures and fittings £
Cost	
At 1 January 2020	216,045
Additions	10,284
Disposals	(141,841)
At 31 December 2020	84,488
Additions	17,092
Disposals	(1,270)
At 31 December 2021	100,310

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

14 Property, plant and equipment		(Continued)
		Fixtures and fittings £
Accumulated depreciation and impairment		
At 1 January 2020		65,181
Charge for the year		109,098
Eliminated on disposal		(140,936)
		<hr/>
At 31 December 2020		33,343
Charge for the year		16,376
Eliminated on disposal		(847)
		<hr/>
At 31 December 2021		48,872
		<hr/>
Carrying amount		
At 31 December 2021		51,438
		<hr/>
At 31 December 2020		51,145
		<hr/>

15 Inventories		2021	2020
		£	£
Finished goods		2,642,143	2,148,805
		<hr/>	<hr/>

Finished goods recognised in cost of sales amounted to £6,212,249 (2020 - £4,470,390). Inventories are stated on a first in first out basis.

16 Trade and other receivables		2021	2020
		£	£
Other receivables		47,338	99,106
Amounts owed by related parties		57,400	57,400
Prepayments		52,468	39,020
		<hr/>	<hr/>
		157,206	195,526
		<hr/>	<hr/>

Trade receivables and other receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

17 Credit risk

Credit risk arises where counterparties unable to meet their payment obligations. As at 31 December 2021 cash on hand was held with reputable financial institutions. Due to the operational nature of the Company's trading active whereby sales are conducted with immediate payment, the Company has limited exposure to credit risk.

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

18 Financial instruments

Categories of financial assets and financial liabilities

	2021 £	2020 £
Loans and receivables		
Other receivables	47,338	99,106
Financial assets measured at amortised cost	<u>47,338</u>	<u>99,106</u>
Financial liabilities measured at fair value through profit and loss		
Convertible loan	<u>3,036,783</u>	<u>2,419,000</u>
Financial liabilities measured at amortised cost		
Trade payables	3,186,122	2,824,116
Accruals	433,141	347,038
Other payables	56,505	118,790
	<u>3,675,768</u>	<u>3,289,944</u>
Borrowings	<u>5,833</u>	-
Total financial liabilities measured at amortised cost	<u>3,681,601</u>	<u>3,289,944</u>

19 Fair value of financial liabilities

The fair value of financial instruments is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a force or liquidation sale.

The directors consider that the carrying value of all financial instruments presented in the table in the note presented above are approximate to their fair values.

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

20 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Company's funding and liquidity management requirements. The company manages liquidity risk by continuously monitoring forecast and actual cashflows, and by matching the maturity profiles of financial assets and liabilities.

Contractual maturity repayment analysis by period

	2021	2021	2020	2020
	£	£	£	£
Type of liability	Due within one year	Due between one and five years	Due within one year	Due between one and five years
Trade and other payables	3,675,852	-	3,290,045	-
Bank loans	5,833	44,167	-	-
Convertible loans	-	3,036,783	-	2,419,000
	<u>3,681,685</u>	<u>3,080,950</u>	<u>3,290,045</u>	<u>2,419,000</u>

21 Convertible loan notes

In October 2020, the Company issued £2.24 million of convertible loans notes with a maturity period of 36 months. The loan note entitled the holder to a redemption premium of 100% of the principal and interest of 8% per annum payable in cash and/or by conversion into shares, as well as the ability to convert the loan notes to a variable number of A Ordinary shares on the occurrence of a fundraising by the company or on maturity. The instrument has been classified as a financial liability in accordance with IAS 32 on the basis that the holder of the loan notes has the right to receive cash (interest) and a variable number of equity instruments. An issue of a further £150,000 of convertible loan notes with the same maturity profile and terms as the original issue was made during 2021.

The instrument is recognised at fair value, with changes in fair value recognised in profit and loss. Its fair value at inception was the initial principal raised. Its fair value at the year end has been estimated using a Monte Carlo model.

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

21 Convertible loan notes		(Continued)		
Movements and balance at the period end		Liability £		
Issue of convertible loan notes		2,240,000		
Interest accrued		179,000		
Liability component at 31 December 2020		2,419,000		
Issue of convertible loan notes		150,000		
Movement in fair value		467,783		
Liability component at 31 December 2021		3,036,783		
Liability component due after one year		3,036,783		
Fair value disclosures				
Recurring fair value measurements				
Fair value measurement at 31 December 2021				
		Quoted prices in active market for identical assets (Level 1)	Using Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		£	£	£
Convertible loans	3,036,783	-	-	3,036,783

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

21 Convertible loan notes

(Continued)

	Fair value measurement at 31 December 2020	Quoted prices in active market for identical assets (Level 1) £	Using Significant other observable inputs (Level 2) £	Significant unobservable inputs (Level 3) £
Convertible loans	2,419,000	-	-	2,419,000

The following inputs have been used in the valuation	2021	2020
Share price (in £)	12.59	10.00
Volatility of share price (%)	54.40	40.00
Risk free rate (%)	From 0.41% to 0.61%	From -0.16% to -0.12%

The valuation has been carried out by external third parties and reviewed and adopted by the directors. The company does not have formal processes and policies in connection with fair value measurement, as it is not a routine feature of its business model.

22 Market risk

Market risk management

Market risk is the risk that changes in market prices will affect the value of its financial instruments classified as at fair value through profit and loss.

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

22 Market risk

(Continued)

Interest rate risk

The carrying amounts of financial liabilities which expose the company to cash flow interest rate risk are as follows:

	2021 £	2020 £
Convertible loans	3,036,783	2,419,000
	<u>3,036,783</u>	<u>2,419,000</u>

	2021	2020
Effect of reduction of 1% in interest rates	(3,000)	(60,000)
Effect of increase of 1% in interest rates	27,000	53,000

The sensitivity analysis assumes a 1% parallel shift in yield curve across all maturities.

23 Trade and other payables

	2021 £	2020 £
Trade payables	3,186,122	2,824,116
Accruals	433,141	347,038
Social security and other taxation	371,265	433,044
Other payables	56,505	118,790
	<u>4,047,033</u>	<u>3,722,988</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 20 (2020-27) days. For most suppliers no interest is charged on amounts payable.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

24 Borrowings

	2021 £	2020 £
Unsecured borrowings at amortised cost or fair value		
Bank loans	50,000	-
Convertible loan notes (including accrued interest)	3,036,783	2,419,000
	<u>3,086,783</u>	<u>2,419,000</u>

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

24 Borrowings (Continued)

Analysis of borrowings

All borrowings are unsecured

	2021 £	2020 £
Current liabilities	5,833	-
Non-current liabilities	3,080,950	2,419,000
	<u>3,086,783</u>	<u>2,419,000</u>

Bank borrowings are unsecured, and carry an interest rate of 2.5% and are repayable in instalments between one and six years.

Borrowings and financial liabilities increased by £200,000 during the year as a result of financing cash flows.

25 Retirement benefit schemes

	2021 £	2020 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	52,288	57,950
	<u>52,288</u>	<u>57,950</u>

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

26 Share-based payment transactions

The company has a share option scheme available to its employees. The vesting period is up to three years. If options remain unexercised after 10 years from the date of grant the options expire. Options are forfeited if the employee leaves the company before the options vest.

	Number of share options	Weighted average exercise price	
	2021	2021 £	2020 £
Outstanding at 1 January	66,150	4.29	4.29
Outstanding at 31 December	66,150	4.29	4.29
Exercisable at 31 December	66,150	4.29	4.29

No share options were granted in 2021 or 2020. During 2019, options were granted on 27 November 2019. The weighted average fair values of the options on the measurement date were £6.80. Fair value was measured using a Monte Carlo model.

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

26 Share-based payment transactions

(Continued)

During 2019, 246,155 E shares were issued for consideration of £25. The weighted average fair value of those instruments at the measurement date was £340,800. The share-based payment charge recognised in respect of these shares in 2021 was £23,038 (2020 £82,945).

The fair value of the E shares was determined using a Monte Carlo options pricing model to incorporate the possibility of hurdle values at which E shares obtain value being achieved. No dividends have been incorporated into the valuation.

Total expenses of £23,038 related to equity settled share based payment transactions were recognised in the year. (2020 - £100,810).

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

27	Share capital and reserves	2021 £	2020 £
	Ordinary share capital		
	<i>Issued and fully paid</i>		
	2,881,839 A ordinary of 0.01p each	288	288
	86,150 B ordinary of 0.01p each	9	9
	56,803 D ordinary of 0.01p each	6	6
	246,155 E ordinary of 0.01p each	25	25
	21,046 Deferred shares of 0.01p each	2	2
		<hr/>	<hr/>
		330	330
		<hr/>	<hr/>

A, B, D and E ordinary shares rank pari passu with the exception that B ordinary shares carry no voting rights. A, B, D & E Ordinary Shares entitle the holder to participate in dividend and distributions in the event of a winding up of the company or when the cumulative value of such withheld dividends exceeds £50. D and E shares entitle the holders to shares of value above certain thresholds in preference to A and B shareholders. Deferred shares carry no voting or dividend rights and no material entitlement to participate in a distribution on winding up.

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

28 Share premium account

	2021 £	2020 £
At 1 January 2021 and 31 December 2021	14,339,390	14,339,390

29 Retained earnings

	2021 £	2020 £
At 1 January 2021	(12,390,118)	(10,451,750)
Profit/(loss) for the year	88,336	(1,938,368)
At 31 December 2021	(12,301,782)	(12,390,118)

30 Leases

Lessee

The company licenses its premises with short-term notice periods and therefore has no committed future expenditure under such arrangements.

Amounts recognised in profit or loss as an expense during the period in respect of short-term lease arrangements are as follows:

	2021 £	2020 £
	25,801	311,887

31 Events after the reporting date

In December 2022 the directors agreed terms for a further £3m (£600,000 of equity and £2.4 million as convertible debt) of additional financing. Terms for the convertible debt are as follows:

- 5 year term
- 8% interest, non-compounding to be paid in equity
- In the event of a conversion, a 20% discount to the pre-money valuation with a valuation cap on conversion of £28m

32 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern. The Company is not subject to any externally imposed restrictions.

SILKFRED LTD

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

33 Related party transactions

Remuneration of key management personnel

Directors of the Company and their immediate relatives control 30.5% of the voting shares of the Company.

The compensation of key management personnel (including the directors) is as follows:

	2021 £	2020 £
Short-term employee benefits	413,750	341,118
Post-employment benefits	-	1,665
	<u>413,750</u>	<u>342,783</u>

Other information

The company made the following payments to the following related parties for consultancy services:

Jackpot Consulting £199,849 (2020 £60,428)

Bond Analytics £198,747 (£nil).

During the year a non-interest bearing loan of £2,543 previously made to Emma Watkinson was repaid.

The company has made a loan of £57,400 (2020-£57,400) to SF World Limited, an entity controlled by one of the directors. The loan is interest-free and repayable on demand

34 Controlling party

The directors consider there is no ultimate controlling party.

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.