

Ustwo London Ltd

Annual Report and Financial Statements

Year Ended

31 December 2019

Company Number 09814285



Ustwo London Ltd

Company Information

Directors	N C Sprinz C Wierwille A W Bigelow
Registered number	09814285
Registered office	G.01 Tea Building 56 Shoreditch High Street London E1 6JJ
Independent auditor	BDO LLP 55 Baker Street London W1U 7EU

Ustwo London Ltd

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Ustwo London Ltd

Strategic Report For the year ended 31 December 2019

The directors of Ustwo London Ltd present their annual report and the audited financial statements for the year ended 31 December 2019.

Principal activity

The company is a wholly-owned subsidiary of Ustwo Studios Limited, a company incorporated in the United Kingdom. The primary activity of the company is the design and development of digital products for clients across multiple sectors including, but not restricted to, health, retail, financial services, technology, automotive and media. The company also manages two branch offices that provide similar services located in Lisbon and Tokyo.

Business review

During the year, the company generated sales of £11,032,000 (2018 - £9,010,000) which represents an improvement on the prior year. This was achieved within a challenging trading environment with increasing competition in the sector from both local/international firms and in-house client teams.

The profit for the financial year amounted to £1,144,000 (2018 - loss of £677,000).

Principal risks and uncertainties

The main financial risks arising from the company's activity are price risk and credit risk. These are monitored by the directors and were not considered to be significant at the balance sheet date. The directors monitor price risk and consider that there are no significant associated risks. The company's policy in respect of credit risk is to receive appropriate credit checks on customers before sales are made to monitor payments against contractual agreements.

Uncertainties arise, for the most part, from the macro-economic trading environment. The directors have well established networks within the industry and they draw on these to constantly evaluate the company's market position and client offering. In addition, the company's broad client portfolio within a range of industries give the directors confidence that the company can weather potential volatility in the economy.

Financial key performance indicators

The key performance indicators for the company are Revenue and Earnings Before Interest and Taxes (EBIT), with EBIT being a key indicator for cash generation.

Operationally, the main KPIs which we track are the utilisation rate of core personnel, the average billing rate and the total revenue earned per employee. The company also looks at the forward order book, pipeline strength and volume of new business as key indicators, which is deemed as commercially sensitive information and is therefore not disclosed. Over 2019 all of these KPIs were in line with the directors' expectations.

Future development

The company will continue to develop and review its strategy to ensure growth in the future. In the short term this will be focused on operational efficiencies, retaining and growing existing client relationships, and enhancements to the company's business development capabilities. In the medium to longer term, the company is focused on aligning its offering with clients' needs and growing the company to meet market demand for the digital design services which the company offers.

Ustwo London Ltd

Strategic Report (continued) For the year ended 31 December 2019

This report was approved by the board and signed on its behalf.



N C Sprinz
Director

Date: 25/09/2020

Ustwo London Ltd

Directors' Report For the year ended 31 December 2019

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

Results and dividends

The profit for the year, after taxation, amounted to £1,144,000 (2018 - loss of £677,000).

The Directors do not recommend the payment of a dividend (2018 - £nil)

Directors

The directors who served during the year were:

N C Sprinz
P A McMahon (resigned 19 June 2019)
C Wierwille (appointed 19 June 2019)
A Bigelow (appointed 19 June 2019)
J Sinclair (resigned 3 October 2019)

Going concern

While the global pandemic has had a widespread macro-economic impact, our business has not been significantly adversely affected. Due to the nature of our business, we were able to transition to remote working seamlessly and have been able to continue to communicate effectively with our clients; most of whom are also working remotely. While the volume of inbound and outbound opportunities initially seems to be lower than pre-COVID levels, we have not lost any existing clients due to the pandemic. In fact, we believe that the opportunities for digital transformation services will increase as a result of the current situation as companies within our target customer segments look to enhance their digital offering. We are currently reviewing our strategy for returning to the physical studio environment but do not believe that this is a prerequisite for business continuity or future growth.

In light of the unprecedented macro-economic upheaval caused by the pandemic, the Directors have sought additional reassurance which has included, among other things:

- Revised P&L forecasting based on a more pessimistic revenue projection model.
- Cash flow forecast from the revised P&L including the identification of major cash risks within the business so as to provide a worst case cash projection.
- Sensitivity analysis on both the P&L and cash forecasts.

The Directors are comfortable that these projections indicate that the Company will be able to meet its commitments through to at least 31 December 2021, under various stress testing conditions. Further to this, the Directors have instituted a number of cash conservation policies and have identified additional actions which can be taken, should the outlook deteriorate.

The company does not have any loan obligations outside of the group and this, together with the strong cash balance, is seen as a key strength which will enable the company to withstand significant stress beyond the current reasonable worst case scenario.

On the basis of this assessment, the Directors consider that the company has adequate resources to operate for the foreseeable future, and as such, have adopted the going concern basis in preparing these company Financial Statements.

Ustwo London Ltd

Directors' Report (continued) For the year ended 31 December 2019

Directors' responsibilities

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 the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 to 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.

Donations

The company made no political donations or incurred any political expenditure during the year (2018 - £nil).

Matters covered in the strategic report

As permitted by paragraph 1A of schedule 7 to the Large and Medium Sized Companies and Groups (accounts and Reports) Regulation 2008, certain matters which are required to be disclosed in the directors' report have been omitted as they are included in the strategic report on page 1.

Ustwo London Ltd

Directors' Report (continued) For the year ended 31 December 2019

Disclosure of information to auditor

Each of the persons who are directors at the time when this directors' Report is approved has confirmed that:

- so far as the directors is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the directors has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.



N C Sprinz
Director

Date: 25/09/2020

Ustwo London Ltd

Independent Auditor's Report to the Members of Ustwo London Ltd

Opinion

We have audited the financial statements of Ustwo London Ltd for the year ended 31 December 2019 which comprise the statement of comprehensive income, the statement of financial position, 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 Financial Reporting Standard 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 the company's profit for the year then ended; and
- 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 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.

Ustwo London Ltd

Independent Auditor's Report to the Members of Ustwo London Ltd (continued)

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.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and 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 director's report.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company's 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.

Ustwo London Ltd

Independent Auditor's Report to the Members of Ustwo London Ltd (continued)

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.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at; <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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 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.

BDO LLP

Andrew Viner (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom

Date: 25/09/2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Ustwo London Ltd

Statement of Comprehensive Income For the year ended 31 December 2019

	Note	2019 £000	2018 £000
Turnover	4	11,032	9,010
Cost of sales		(6,304)	(6,218)
Gross profit		4,728	2,792
Administrative expenses		(3,884)	(3,584)
Other operating income	5	262	45
Operating profit/(loss)	6	1,106	(747)
Interest receivable and similar income	10	26	-
Interest payable and similar charges	11	(3)	(5)
Profit/(loss) before tax		1,129	(752)
Taxation (charge)/credit	12	15	75
Profit/(loss) for the year		1,144	(677)

All amounts relates to continuing operations.

There was no other comprehensive income for 2019 (2018 - £nil).

The notes on pages 12 to 26 form part of these financial statements.

Ustwo London Ltd
Registered number:09814285

Statement of Financial Position
As at 31 December 2019

	Note	2019 £000	2018 £000
Fixed assets			
Tangible assets	13	88	104
Current assets			
Debtors: amounts falling due after more than one year	14	440	270
Debtors: amounts falling due within one year	14	388	2,832
Cash and cash equivalents		5,413	1,524
		<u>6,241</u>	<u>4,626</u>
Creditors: amounts falling due within one year	15	(2,479)	(6,270)
Net current assets/(liabilities)		3,762	(1,644)
Creditors: amounts falling due after more than one year		(4,246)	-
Net liabilities		<u>(396)</u>	<u>(1,540)</u>
Capital and reserves			
Share capital	18	-	-
Profit and loss account	19	(396)	(1,540)
		<u>(396)</u>	<u>(1,540)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



N C Sprinz
Director

Date: 25/09/2020

The notes on pages 12 to 26 form part of these financial statements.

Ustwo London Ltd

Statement of Changes in Equity For the year ended 31 December 2019

	Profit and loss account £000	Total equity £000
At 1 January 2019	(1,540)	(1,540)
Profit for the year	1,144	1,144
At 31 December 2019	(396)	(396)

Statement of Changes in Equity For the year ended 31 December 2018

	Profit and loss account £000	Total equity £000
At 1 January 2018	(863)	(863)
Loss for the year	(677)	(677)
At 31 December 2018	(1,540)	(1,540)

The notes on pages 12 to 26 form part of these financial statements.

Ustwo London Ltd

Notes to the Financial Statements For the year ended 31 December 2019

1. General information

Ustwo London Ltd is a private company incorporated in England and Wales. The address of its registered office is G.01 tea Building, 56 Shoreditch High Street, London, E16JJ, United Kingdom. The nature of the company's operations and principal activity are set out in the directors' report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Ustwo Company Limited as at 31 December 2019 and these financial statements may be obtained from G.01 tea Building, 56 Shoreditch High Street, London, E16JJ, United Kingdom.

Ustwo London Ltd

Notes to the Financial Statements For the year ended 31 December 2019

2. Accounting policies (continued)

2.3 Going concern

While the global pandemic has had a widespread macro-economic impact, our business has not been significantly adversely affected. Due to the nature of our business, we were able to transition to remote working seamlessly and have been able to continue to communicate effectively with our clients; most of whom are also working remotely. While the volume of inbound and outbound opportunities initially seems to be lower than pre-COVID levels, we have not lost any existing clients due to the pandemic. In fact, we believe that the opportunities for digital transformation services will increase as a result of the current situation as companies within our target customer segments look to enhance their digital offering. We are currently reviewing our strategy for returning to the physical studio environment but do not believe that this is a prerequisite for business continuity or future growth.

In light of the unprecedented macro-economic upheaval caused by the pandemic, the Directors have sought additional reassurance which has included, among other things:

- Revised P&L forecasting based on a more pessimistic revenue projection model.
- Cash flow forecast from the revised P&L including the identification of major cash risks within the business so as to provide a worst case cash projection.
- Sensitivity analysis on both the P&L and cash forecasts.

The Directors are comfortable that these projections indicate that the Company will be able to meet its commitments through to at least 31 December 2021, under various stress testing conditions. Further to this, the Directors have instituted a number of cash conservation policies and have identified additional actions which can be taken, should the outlook deteriorate.

The company does not have any loan obligations outside of the group and this, together with the strong cash balance, is seen as a key strength which will enable the company to withstand significant stress beyond the current reasonable worst case scenario.

On the basis of this assessment, the Directors consider that the company has adequate resources to operate for the foreseeable future, and as such, have adopted the going concern basis in preparing these company Financial Statements.

2.4 Turnover

Turnover is recognised in the period that design and development services are provided after making adjustment for accrued and deferred income for projects that cross over the year end. Revenue is measured as the fair value of consideration received or receivable, excluding discounts, rebates, value added tax and any other sales taxes. Revenue is recognised on the following basis:

- Retainer fees are spread over the period of the contract, in accordance to the agreed fee for each period which approximates to when the work is performed.
- Time and material fees are recognised in the period when the work is carried out for the time worked at the agreed rates in accordance with the project contracts
- Fixed fees are recognised over the period of the contract on the basis of project completion for each accounting period, and where projects which falls over the year end, a percentage costs of completion against the overall expected cost of the project is applied to reflect the revenue earned.

Ustwo London Ltd

Notes to the Financial Statements For the year ended 31 December 2019

2. Accounting policies (continued)

2.5 Other operating income

Other operating income represents net invoiced sales of shared office facility services, less value added tax and other local taxes.

Other operating income is recognised in the year that shared office facility services are provided.

2.6 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Leasehold improvements	-	Over term of lease
Furniture and fixtures	-	50% and 33% on cost
Office equipment	-	50% and 33% on cost
Computer equipment	-	50% and 33% on cost

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

2.7 Operating leases

Rentals income from operating leases is credited to the statement of comprehensive income on a straight line basis over the term of the relevant lease.

Amounts paid and payable as an incentive to sign an operating lease are recognised as a reduction to income over the lease term on a straight line basis, unless another systematic basis is representative of the time pattern over which the lessor's benefit from the leased asset is diminished.

2.8 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Ustwo London Ltd

Notes to the Financial Statements For the year ended 31 December 2019

2. Accounting policies (continued)

2.9 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Ustwo London Ltd

Notes to the Financial Statements For the year ended 31 December 2019

2. Accounting policies (continued)

2.10 Financial instruments

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in the case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.11 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Ustwo London Ltd

Notes to the Financial Statements For the year ended 31 December 2019

2. Accounting policies (continued)

2.12 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other operating income'.

2.13 Finance costs

Finance costs are charged to the statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.14 Pensions

Defined contribution pension plan

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in the statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the statement of financial position. The assets of the plan are held separately from the company in independently administered funds.

2.15 Interest income

Interest income is recognised in profit or loss using the effective interest method.

Ustwo London Ltd

Notes to the Financial Statements For the year ended 31 December 2019

2. Accounting policies (continued)

2.16 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have had to make the following judgements:

- Determining the amount of revenue to recognise in respect of project work ongoing at the year end. Factors taken into account in assessing the percentage completion of a project include hours worked versus budget, project phases, milestones completed or deliverables issued to the client.

Other key sources of estimation uncertainty

- Tangible fixed assets (see note 12)
Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on the number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

4. Turnover

The whole of the turnover is attributable to the primary activity of the company being design and development of digital products for clients across multiple sectors including automotive, retail, financial services, technology and media.

All turnover arose within the United Kingdom.

Ustwo London Ltd

Notes to the Financial Statements For the year ended 31 December 2019

5. Other operating income

	2019 £000	2018 £000
Rental income	262	45

6. Operating profit/(loss)

The operating profit/(loss) is stated after charging:

	2019 £000	2018 £000
Depreciation of tangible fixed assets	77	72
Exchange differences	11	2,736
Operating lease rentals	686	529

7. Auditor's remuneration

	2019 £000	2018 £000
Fees payable to the company's auditor for the audit of the company's annual financial statements	20	18

The company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the group accounts of the parent company.

Ustwo London Ltd

Notes to the Financial Statements For the year ended 31 December 2019

8. Employees

Staff costs were as follows:

	2019 £000	2018 £000
Wages and salaries	3,813	4,444
Social security costs	436	481
Cost of defined contribution scheme	418	385
	<u>4,667</u>	<u>5,310</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2019 No.	2018 No.
Production	45	58
Admin	11	10
	<u>56</u>	<u>68</u>

9. Directors' remuneration

	2019 £000	2018 £000
Directors' emoluments	152	150
Company contributions to defined contribution pension schemes	23	19
	<u>175</u>	<u>169</u>

During the year retirement benefits were accruing to 1 director (2018 - 1) in respect of defined contribution pension schemes.

10. Interest receivable

	2019 £000	2018 £000
Foreign exchange gain	<u>26</u>	<u>-</u>

Ustwo London Ltd

Notes to the Financial Statements For the year ended 31 December 2019

11. Interest payable and similar charges

	2019 £000	2018 £000
Bank charges	3	2
Foreign exchange loss	-	3
	<u>3</u>	<u>5</u>

12. Taxation

	2019 £000	2018 £000
Corporation tax		
Adjustments in respect of previous periods	(34)	(375)
	<u>(34)</u>	<u>(375)</u>
Foreign tax		
Foreign tax on income for the year	5	-
Foreign tax in respect of prior periods	4	-
	<u>9</u>	<u>-</u>
Total current tax	<u>(25)</u>	<u>(375)</u>
Deferred tax		
Origination and reversal of timing differences	175	23
Adjustments in respect of prior periods	(165)	277
	<u>10</u>	<u>300</u>
Taxation on profit/(loss) on ordinary activities	<u>(15)</u>	<u>(75)</u>

Ustwo London Ltd

Notes to the Financial Statements For the year ended 31 December 2019

12. Taxation (continued)

Factors affecting tax credit for the year

The tax assessed for the year is lower than (2018 - higher than) the standard rate of corporation tax in the UK of 19.00% (2018 - 19.00%). The differences are explained below:

	2019 £000	2018 £000
Profit on ordinary activities before tax	1,129	752
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2018 - 19.00%)	215	(143)
Effects of:		
Foreign tax	9	-
Adjustments to tax charge in respect of previous periods	(34)	(375)
Fixed asset differences	3	4
Expenses not deductible for tax purposes	113	95
Adjustments to deferred tax charge in respect of previous periods	(165)	277
Adjust deferred tax for rate differences	(31)	(2)
Other tax adjustments, reliefs and transfers	-	(7)
'Group relief (claimed)/surrendered	(125)	76
Total tax credit for the year	(15)	(75)

Factors that may affect future tax charges

The Finance (No.2) Act 2015 included a reduction in the UK corporation tax rate from 20% to 19% from April 2017 and to 18% from April 2020. A further reduction to 17% (effective from April 2020, to replace the previous 18%) has also been substantively enacted at the balance sheet date.

Ustwo London Ltd

Notes to the Financial Statements For the year ended 31 December 2019

13. Tangible fixed assets

	Leasehold improvements £000	Computer equipment £000	Furniture and fixtures £000	Office equipment £000	Total £000
Cost					
At 1 January 2019	30	410	194	89	723
Additions	-	42	18	3	63
Disposals	-	(36)	-	-	(36)
At 31 December 2019	30	416	212	92	750
Depreciation					
At 1 January 2019	9	357	166	87	619
Charge for the year	8	42	25	2	77
Disposals	-	(34)	-	-	(34)
At 31 December 2019	17	365	191	89	662
Net book value					
At 31 December 2019	13	51	21	3	88
At 31 December 2018	21	53	28	2	104

Ustwo London Ltd

Notes to the Financial Statements For the year ended 31 December 2019

14. Debtors

	2019 £000	2018 £000
Due after more than one year		
Amounts owed by group undertakings	413	233
Deferred tax asset (note 17)	27	37
	<u>440</u>	<u>270</u>
Due within one year		
Trade debtors	302	2,122
Other debtors	86	61
Prepayments and accrued income	-	274
Tax recoverable	-	375
	<u>388</u>	<u>2,832</u>

Amounts owed by group undertakings are not interest bearing and are repayable on demand and are unsecured.

15. Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	213	217
Amounts owed to group undertakings	328	4,644
Other taxation and social security	237	276
Other creditors	435	316
Accruals and deferred income	1,266	817
	<u>2,479</u>	<u>6,270</u>

Amounts owed to group undertakings are not interest bearing and are repayable on demand and are unsecured.

16. Creditors: Amounts falling due after more than one year

	2019 £000	2018 £000
Amounts owed to group undertakings	<u>4,246</u>	<u>-</u>

Ustwo London Ltd

Notes to the Financial Statements For the year ended 31 December 2019

17. Deferred taxation

	2019 £000	2018 £000
At beginning of year	37	337
Charged to profit or loss	(10)	(300)
At end of year	27	37

The deferred tax asset is made up as follows:

	2019 £000	2018 £000
Accelerated capital allowances	27	37
	27	37

18. Share capital

	2019 £000	2018 £000
Allotted, called up and fully paid		
100 Ordinary shares of £0.01 each	-	-

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

19. Reserves

Profit and loss account

Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

20. Pension commitments

The group operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £418,000 (2018 - £385,000). £Nil (2018 - £20,000) was outstanding at the end of the year.

Ustwo London Ltd

Notes to the Financial Statements For the year ended 31 December 2019

21. Commitments under operating leases

The company had no commitments under the non-cancellable operating leases as at the reporting date. The operating lease is held by the group's parent company and expenses are recharged to group undertakings.

22. Related party transactions

The company has taken advantage of the exemption under FRS 102 not to disclose transactions with members wholly owned within the group.

23. Controlling party

The immediate parent company is Ustwo Studios Limited.

The ultimate parent company is Ustwo Fampany Limited, which is the largest group undertaking to consolidate these financial statements at 31 December 2019. The consolidated financial statements are available to the public and can be obtained from G.01 Tea Building, 56 Shoreditch High Street, London, E16JJ, United Kingdom.