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**we create**

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# hello

## **Strategic Report**

- 04 At a glance
- 06 Our business model
- 08 Our strategy
- 10 Message from the Chair
- 12 Chief Executive's Review
- 16 Chief Executive's Q&A
- 18 Financial Review
- 22 Culture, People and Values
- 30 S172 Statement
- 32 Principal Risks & Uncertainties

## **Corporate Governance**

- 38 The Board
- 40 Directors' Report
- 45 Corporate Governance
- 51 Remuneration Report
- 54 Independent Auditor's Report

## **Financial Statements**

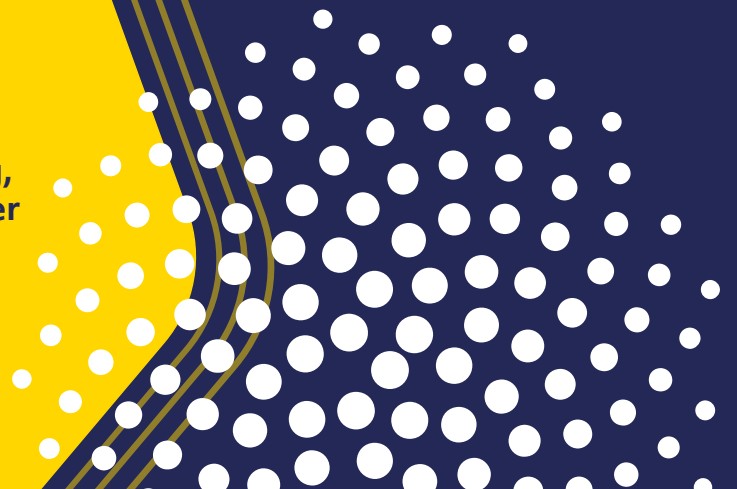
- 66 Consolidated Statement of Profit or Loss
- 66 Consolidated Statement of Comprehensive Income
- 67 Statements of Financial Position
- 68 Consolidated Statement of Changes in Equity
- 69 Company Statement of Changes in Equity
- 70 Statements of Cash Flows
- 71 Accounting Policies
- 87 Notes to the Accounts
- 119 Notice of Annual General Meeting 2020
- IBC Directors and Advisers

# we are apprec:ate

group plc

## what we do

Appreciate Group is a financial services business providing individuals and businesses with solutions for the moments that matter to them. We make giving, receiving and experiencing easier and more joyful.



We create

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## our purpose

To **create more joy** in the world. By being trusted to help our customers with celebrating and rewarding.



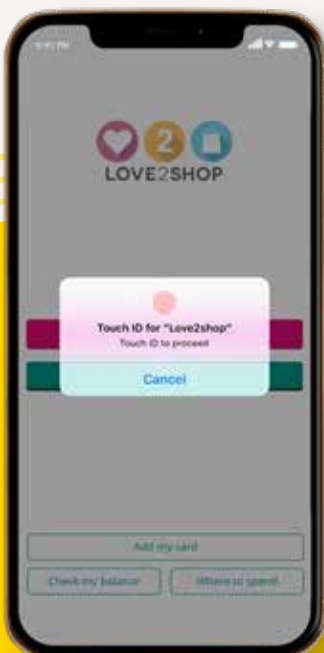
## At a glance

# We are Appreciate Group, the UK's leading prepayment, gifting and engagement company.

### Who we are

We are experts at creating joyful experiences and connecting people to the things in life they enjoy the most.

Everything we do is focused on creating more joy in the world, and we are proud to be trusted to help our customers create moments they can treasure and remember, whether they are giving, celebrating or rewarding.



### Our rich heritage

Our aim today – as it has been for more than 50 years – is to create 'wow' moments in our customers' lives, and we're the Company behind some of the nation's most loved pre-payment, gifting and engagement products.

Our family of brands is ever evolving and we're constantly refining and adapting our products – accelerating and innovating digitally – in order to suit the demands of modern consumers and businesses.

When our customers are looking for gifting solutions, we are there for them.

## Reimagining digital

Appreciate Group is leading the UK gifting industry in terms of developing new digital products, bringing European-first technologies to consumers and businesses through innovation and collaboration.

Our family of brands now also include direct-to-digital-wallet virtual cards (Select Digital Gift Card), fully flexible and customisable codes that can be emailed to friends, families and colleagues (e-codes) and personalised virtual cards for one-to-one distribution (Giftli).

### How we do it

Appreciate Group's much loved gifting and engagement products include Park Christmas Savings, Highstreetvouchers.com, Love2shop and Love2shop Business, and we are fast-becoming the home of digital innovation in gifting.

Whether it's saving towards the perfect family Christmas or celebrating with gift cards and vouchers, we create and supply products that millions of people trust when it comes to giving and receiving with family, friends or colleagues.

### Product Mix FY 2020

Appreciate provides products with three formats. The product mix is moving towards Card and Digital due to changing customer tastes and strategic initiatives.



|           |       |
|-----------|-------|
| ■ Paper   | 41.8% |
| ■ Card    | 53.8% |
| ■ Digital | 4.4%  |



## Business structure

Our business is split into two divisions:

### Corporate

Providing around 42,000 business customers with market-leading incentive, recognition and rewards options for an estimated two million recipients through over 200 redemption partners with more than 25,000 outlets.



### Consumer

Offers multi-retailer redemption product directly from our website [highstreetvouchers.com](http://highstreetvouchers.com) or via our leading Christmas savings offering, which currently helps approximately 350,000 families budget for Christmas.



Division share of Group revenue for year ended 31 March 2020



■ Corporate 44.6%  
■ Consumer 55.4%

## How we've performed

We've made tangible progress in our strategic business plan to build a robust and scalable business model that will enable us to take advantage of the growth opportunities in our markets. Whilst our performance was impacted by the COVID-19 pandemic in the last weeks of our financial year, we have been adapting our business to set us up well to capitalise on doing business as lockdown relaxes.

### Group billings\* (£m)

# £419.9m

|      |         |
|------|---------|
| 2020 | £419.9m |
| 2019 | £426.9m |
| 2018 | £412.8m |
| 2017 | £404.5m |
| 2016 | £385.0m |

### Group revenue (£m)

# £112.7m

|      |         |
|------|---------|
| 2020 | £112.7m |
| 2019 | £110.4m |
| 2018 | £111.1m |
| 2017 | £100.6m |
| 2016 | £85.8m  |

### Operating profit (£m)

# £6.4m

|      |        |
|------|--------|
| 2020 | £6.4m  |
| 2019 | £9.7m  |
| 2018 | £11.3m |
| 2017 | £10.4m |
| 2016 | £10.4m |

### Profit before taxation before exceptional item\*\* (£m)

# £11.4m

|      |        |
|------|--------|
| 2020 | £11.4m |
| 2019 | £12.5m |
| 2018 | £12.6m |
| 2017 | £11.9m |
| 2016 | £11.9m |

### Dividends per share (p)

# 0.00p

|      |       |
|------|-------|
| 2020 | 0.00p |
| 2019 | 3.20p |
| 2018 | 3.05p |
| 2017 | 2.90p |
| 2016 | 2.75p |

### Total basic earnings per share (p)

# 2.96p

|      |       |
|------|-------|
| 2020 | 2.96p |
| 2019 | 4.78p |
| 2018 | 5.50p |
| 2017 | 5.17p |
| 2016 | 5.29p |

### Profit before taxation (£m)

# £7.7m

|      |        |
|------|--------|
| 2020 | £7.7m  |
| 2019 | £11.3m |
| 2018 | £12.6m |
| 2017 | £11.9m |
| 2016 | £11.9m |

\* see page 77 in accounting policies for a reconciliation of billings to revenue

\*\* see financial review for reconciliation of adjusted to statutory profit measure

## Our business model

# Helping businesses and consumers create more joy

### Core product

Prepaid instrument that can be redeemed from a curated group of partners: from high street and online retailers to experiences



Prepayment



### Propositions

Helping consumers put money aside to ensure they can pay for key events

Gifting



Helping consumers convert their kind thoughts into joyful gifts

Engagement



Helping businesses attract and retain employees and customers

B2C

B2B





### Channels



### Format



Digital



Card



Paper

### Revenue stream

Partners benefit from increased footfall & basket value and pay a commission on the value of spend

Some revenue is derived from non-redemption

Some Christmas savers also purchase hampers and merchandise from us

Businesses also purchase other products and services to help them manage these various programmes

## Our strategy

# Positioning Appreciate Group to take advantage of a growing opportunity

01

### Productivity

Become more efficient and effective

#### Action Completed

- Successfully completed office relocation to Liverpool city centre, establishing a modern, collaborative working culture
- Implemented technology to facilitate agile working and digital office collaboration
- Streamlined operations remaining in Birkenhead to facilitate future sale of site
- Commenced migration to cloud based computing
- By promoting chat for Customer Care, we have seen an increase of almost a third (31 per cent) in chat sessions and have received 8 per cent fewer voice calls
- HR solution (MS Talent) was implemented
- Invested in people development initiatives

#### Impact

- Improving the culture of collaboration and enhancing our talent pool and work environment results in increased capability and productivity.

02

### Appeal

Broaden our appeal to drive growth

#### Action Completed

- Taking gifting into the mobile era with a contactless-enabled digital gift card, loaded into the wallet app on mobile devices and allowing instant celebration and reward of moments that matter to customers
- Successfully tested Select Digital Gift Card and Giftli, as part of trials to target currently untapped demand from a broader audience
- Important learnings from these trials being incorporated into an enhanced proposition for Corporate clients
- Enhanced customer journey for Park Christmas Savings
- Streamlined social media and marketing communications
- Added e-codes and e-cards to highstreetvouchers.com and offered Digital Gift Card to corporate clients

#### Impact

- Exploiting our existing strengths enables us to reach new and much larger markets.



## Our strategic pillars

In December 2018 we set out our strategic business plan to build a robust and scalable platform on which to grow. We categorised these plans under four pillars: Productivity, Appeal, Clarity and Experience (PACE).

03

### Clarity

**Focus on our multi-retailer redemption provision**

#### Action Completed

- Redefined and rationalised our Brand Architecture, which included renaming Park Group plc to Appreciate Group plc and refreshing the Park Christmas Savings brand through all channels including the website and app
- Structured our business around products and market segments (centralising some of the activity previously conducted separately within the business units)
- Separated the hamper business
- Consolidated and simplified the number of product variants
- Adopted a more disciplined approach to new product development (established a Product Design Authority)
- Established brand guidelines with clear tone of voice
- Initiated Group Brand Activation and brand awareness activity, with targeted social media postings and community partnerships

#### Impact

- Focusing on clear priorities aligns all of our efforts with clarity of purpose and focused execution.

04

### Experience

**Be easier to work with for all our customers**

#### Action Completed

- Created an end-to-end, fully digital experience for giftcard purchase, delivery and redemption, with contactless capability in a mobile phone wallet
- Upgraded the client on-boarding journey
- Ongoing focus to optimise the conversion rate on our websites
- Improvements in the digital and physical experience for our customers
- Investment in technology to increase the resilience and security of our networks
- Developing a consistent enterprise wide customer experience framework, aligned to the Brand Architecture work
- Standardised complaints process
- Customer Committee established
- Project to implement a new Enterprise Resource Planning (ERP) system, Microsoft Dynamics 365, is progressing well. This will provide the scalability, resilience and efficiency required for more seamless and automated back office support functions across the business

#### Impact

- Providing best in class customer experience and data journeys delivers improved product take up and enhanced value.

## Message from the Chair

# Rising to the challenge

**Our heritage stretches more than five decades, and during that time we've weathered many storms as a business. Consistently, we have emerged ready for growth, and we intend to do so again.**

The Board, our management teams and all our colleagues have worked with dedication and focus to develop and implement our new strategy over the last two years; and, more recently, to manage and mitigate the unprecedented challenges posed by the consequences of the COVID-19 pandemic.

As well as adapting our business for the future during this period, notably by intensifying our focus on digital products and delivery, we have strengthened our focus on developing smarter, more efficient ways of working that will set us up well to capitalise on doing business after COVID-19.

Because of the foundations we have put in place over the last two years – in particular the new office and IT investment – we have been able to transition to home working and maintain continuity for much of what we do. This has ensured we are well placed to deliver on customer demands, maintain satisfaction, and accelerate the development of new products and services, some of which are defining our market.

During the past year, we've taken the opportunity to become a better, stronger business, innovating in digital, building resilience, testing new products and reaching new markets, so we are well positioned to continue to increase our market share and fulfil our ambition and those of our stakeholders.

### Results for the year

Results are broadly in line with expectations, having been impacted by the COVID-19 pandemic and subsequent lockdown in the last weeks of our financial year.

Billings\* decreased by 1.6 per cent in the year to 31 March 2020 to £419.9m (2019: £426.9m) despite good growth from our Corporate business. Revenue increased slightly by 2.1 per cent to £112.7m (2019: £110.4m) driven by a rise in Consumer revenue.

Operating profit before exceptional items\*\* for the year was £10.1m (2019: £10.9m). Interest income was £1.5m (2019: £1.6m) on average cash balances (including cash held in trust) of £177m (2019: £174.0m), after which profit before tax was £8.3m (2019: £11.3m).

Profit before tax and exceptionals was £11.4m (2019: £12.5m) before exceptional charges of £3.7m relating to the impairments of goodwill, impairment of our former main operating site, and restructuring costs (2019: £1.2m of exceptional items). Total cash balances, including monies held in trust and bank deposits, at 31 March 2020 were £132.3m (2019: £134.0m).

### COVID-19 update

Whilst the timing of a return to normal market conditions remains unclear, the impact of COVID-19 on the current financial year ending 31 March 2021 will be significant. However, we expect the improvement seen in trading over recent months to continue and for performance to recover thereafter. We also recognise that this could be tempered in the event of a second wave.

Demand in our Corporate and Consumer areas has been approximately 48 per cent below last year since lockdown began. We have previously stated that our Christmas Savings order book business is approximately 10 per cent below the prior year, and cancellation rates remain similar to previous years, and this has remained the case. Our customers continue to benefit from their savings being protected by the Park Prepayment Protection Trust. We remain focussed on driving efficiencies where possible and delaying any discretionary

spend or capital projects. We have cancelled annual pay reviews and made no awards for FY2019/20 under the company wide annual bonus plan.

### Dividend

We reported in March that the Board had decided that it was prudent not to pay the interim dividend of 1.05 pence per ordinary share as previously announced and due to be paid on 6 April 2020.

The Board recognises the importance of dividends to its shareholders and is committed to its progressive dividend policy which seeks to reflect the Group's strong underlying cash flow and profit generation, whilst retaining sufficient capital to fund investment in the business.

The UK trading conditions continue to be uncertain and at this point, despite favourable trends, the outcome of our peak Q3 trading period remains uncertain. In addition, the ongoing pandemic poses risk to successful operational delivery. We know from experience that an outage of any kind – people absence, system interruption, etc – at an inopportune time can have a disproportionate impact. These factors combined lead the Board to consider it prudent not to recommend a dividend for this financial year. It has been the Board's policy to distribute just over half of post-tax profit as dividend, with one third of that as an interim dividend and the remaining two thirds as a final dividend. The Board intends to return to that policy as soon as it is appropriate to do so.

In considering its recommendation on the dividend this year, the Board has taken into account the fact that Appreciate Group has received £243,000 through the Government's Coronavirus Job Retention Scheme between March and June and has put in place a financing facility of £15 million (a measure planned prior to the COVID-19 crisis) to cover cash flow fluctuations reflecting its evolving business model from the strategic changes implemented last year.





**Laura Carstensen**  
Non-Executive Chairman

## Investing in our people to deliver growth

### Board changes

In September, we strengthened the Board with the appointment of Sally Cabrini as a non-executive director and Chair of the Remuneration Committee. Sally brings with her a record of relevant experience as a board member. She is Chair of the Remuneration Committee at FirstGroup plc and was a member of audit and risk committees and Chair of the remuneration committee of Lookers plc. Her executive experience includes roles with Interserve Group Limited, and United Utilities plc.

We were also pleased to announce the appointment of John Gittins, an existing non-executive director, as Senior Independent Director.

### Our colleagues

The Board would like to thank all our colleagues for their outstanding hard work, adaptability and resilience. Through this challenging period, the Board and leadership team have remained focused on doing the very best for our people; by ensuring their safety and well-being and by providing them with the necessary tools, support, training and development to thrive in these times of change.

Central to this is a strong culture that supports everyone in working together with clarity and purpose as we deliver our growth plans. We have significantly improved the working environment and technology used by colleagues and made a commitment to improving employee engagement along with our ability to communicate, driving openness and dialogue, as well as enhancing collaboration.

## Outlook

The Board remains positive about the prospects of the business and the long-term benefits of the Group's strategic business plan, which is now well advanced with elements such as logistics and operations already complete.

The Board has reviewed five financial scenarios of the potential impact of COVID-19 on the business. We remain focused on managing liquidity due to swings in free cash from month to month, driven by the timings of monies being moved in and out of trusts, and the purchasing of third party, single retailer redemption products. To support this, a bank financing exercise has been completed, which will provide the additional financial flexibility to protect against downside risk in the short term; enabling longer term growth, as well as investing in the continued switch to digital products. Further details are contained within our going concern disclosures on pages 71 to 73.

The investment in transformation that we have been undertaking has already shown benefit, although this has inevitably been interrupted by the lockdown. We continue to expect good future growth prospects founded on the more robust and scalable business model we are creating.

In summary, we are pleased with the considerable progress that we have made and are making, and we are confident that delivery of the strategic business plan will lay the foundations for strong and sustained growth in future years.

**Laura Carstensen**  
Chairman  
12 August 2020

## Investment Case

- **Ambitious management team with the experience to deliver.**
- **Clear strategy to drive long-term growth and returns.**
- **Market leading multi-retail redemption provider.**
- **Strong track record of profitable growth with scope for greater efficiencies.**
- **Good visibility of earnings and profitability.**
- **Good market share, with opportunities to grow.**
- **Strong relationships with well-known retail and corporate brands.**
- **Stable platform with opportunities to enhance digital product offering and capture untapped demand.**
- **Option to adopt enhanced card services and improve utility.**

\* See page 77 in accounting policies for a reconciliation of billings to revenue

\*\* see financial review for reconciliation of adjusted to statutory profit measure

## Chief Executive's Review

# Focused on the future

Ian O'Doherty  
Chief Executive Officer

Corporate revenue

£50.3m

Consumer revenue

£62.4m

**This was another year in which Appreciate Group has taken a number of important steps forward, as we continued to build upon our position as one of the UK's leading gifting, prepayment and engagement companies.**

Our consumer-facing brands meet a range of prepayment and gifting needs, while business products support engagement by helping corporate customers reward and recognise their employees and clients.

We are pleased to report that we have made tangible progress on the strategic business plan announced in December 2018. During last year we relocated our offices, implemented new technologies, trialled new digital products and changed the Company name and brand. All of this has contributed to the development of a robust and scalable business model that will enable us to take advantage of the growth opportunities in our markets.

We remain confident in our strategy and in the medium to long-term opportunity, particularly as the current pandemic is leading to an acceleration to digital in all areas of consumer and business activity. We continue to believe that the steps we are taking will strengthen the Group's proposition for

consumers, businesses and redemption partners alike. Our ability to capitalise on opportunities in the fast-evolving markets that we serve has increased, but the timing of this has been set back by the COVID-19 pandemic.

Thankfully, work completed and investments made during the recent past, particularly in technology, the ability to work from home and business continuity, have meant that we have been better positioned to cope with the challenges of the pandemic than we would otherwise have been. We are already seeing improvements in the efficiency of our operations, which will lead to enhanced profitability in future years. Our continued progress implementing the strategic business plan and pivoting to digital products has positioned the Group well to emerge from the lockdown a stronger business.

### COVID-19 response, trading and outlook

Trading for the 11-month period to the end of February 2020 was in line with our expectations. The final month of the financial year brought the COVID-19 lockdown; the market challenges of this period are well documented, but the business responded well to the disruption and there are some encouraging signs for the future.



The safety of our colleagues, their families, our customers and our communities is our first priority. In line with Government guidelines at year end, we initially closed all our facilities, including our fulfilment and reconciliation operation. The investment in technology we have made over the last year meant that over 80 per cent of the Group's employees were able to work from home immediately and effectively. We have supported those colleagues unable to fulfil their role from home through parental leave or furloughing under the Government's Coronavirus Job Retention Scheme.

Group trading websites continued to accept and fulfil orders, but our emphasis shifted to digital delivery only. Without the ability to dispatch physical product, our products available for sale were initially limited. We have addressed this by prioritising our digital offerings and adding e-codes and e-cards to our proposition on [highstreetvouchers.com](https://www.highstreetvouchers.com) (HSV). However, many corporate clients continue to request physical product and we have been able to accommodate this with a phased easing of restrictions on fulfilment from May 2020 (all the time adhering to Government guidelines and ensuring the safety of colleagues).

In our year end trading update, issued on 30 April 2020, we acknowledged the initial impact of lockdown by stating that "demand in our Corporate and Other Consumer areas is approximately 70 per cent below last year." I am pleased to report that we have seen trading gradually improve in the new financial year. Total billings have started to recover; they were down 47 per cent year on year in May, and 35 per cent down in June to give a year to date position of 48 per cent down for the first quarter. We also stated that "current cancellation rates (for our Christmas Savings business) are similar to previous years" and this has remained the case as at the end of July 2020.

The redemption rates of our products currently in circulation have also been affected, as the number of outlets open to use our products decreased, although we continue to see customers redeeming products in high street stores that are open and at online retailers. We made the decision to extend the date of products which were due to expire at the end of March 2020 for a period of several months whilst many shops were closed to help mitigate this and support our customers.

Lower redemption rates in March 2020 have had an adverse financial impact on the results for the year ended 31 March 2020. Conversely, this delay in spending has a positive impact on cash flow. Overall redemptions in the new financial year starting 1 April 2020 are down year-on-year by approximately 39 per cent as at 31 July 2020. Within that, not surprisingly, redemptions in physical shops are down and redemptions online are up (approximately -75 per cent and +44 per cent respectively).

Part of our overall strategy has been to promote our own products as much as possible, with the result that overall billings of our multi-redemption products are 91 per cent of the total from April 2020 to July 2020, up from 84 per cent at the same point last year. The same is true within Corporate, where billings of our multi-redeemer products increased to 89 per cent from 83 per cent.

On HSV we have promoted all available digital products, which has included many single-store e-codes. This has resulted in the percentage of digital products jumping to 45 per cent since their introduction last year. We have also seen billings of our multi-redemption products increasing from 76 per cent to 79 per cent for the first four months of the new financial year.

## Chief Executive's Review continued

As well as adding to the range on HSV, we have taken steps to optimise the flow of traffic to our website. During the month of April there were 279,684 visits to HSV, down 25 per cent on last year. May was 8 per cent lower; whilst June and July both saw slightly more visits than the previous year following the measures taken and recovery from lockdown.

We have also taken steps to improve the conversion of sales opportunities created. Since the end of March, the conversion rate on HSV has improved. The average conversion rate over the last five days of March – in the immediate aftermath of lockdown – was 2.78 per cent; while the average over the months from May to July 2020 has been around 5 per cent.

These are encouraging signs regarding number of visitors and conversion to sales. Work to optimise the flow of traffic and conversion rate continues.

### Divisional review

We continue to operate in dynamic and growing markets, serving customers in both corporate and consumer channels. There has been an encouraging rate of growth in the UK gift card market during the calendar year 2019, with growth in the second half at 12 per cent and the market now estimated to be worth approximately £7bn annually\*\*.

### Corporate (44.6 per cent of Group revenue in the year ended 31 March 2020)

Appreciate Group's Corporate business provides around 42,000 business customers with market-leading incentive, recognition and rewards options for an estimated two million recipients through around 190 redemption partners with almost 24,000 outlets.

Corporate billings of £197.7m were 1.5 per cent ahead of the prior year (2019: £194.8m). Corporate revenue was £50.3m (2019: £51.5m) representing a decrease of 2.4 per cent. Segmental profit decreased by £1.2m to £6.6m (2019: £7.8m) due to higher administration costs. The pre-exceptionals performance from our Corporate business was driven through a combination of billings growth and a more profitable product mix.

In the year we strengthened the businesses we work with by adding organisations such as BP, Britvic and Howdens as prestigious new partners.

### Consumer (55.4 per cent of Group revenue in the year ended 31 March 2020)

Consumers can access Appreciate Group's multi-retailer redemption product directly from our website [highstreetvouchers.com](http://highstreetvouchers.com) or via our leading Christmas savings offering, which currently helps approximately 350,000 families budget for Christmas.

Our Consumer business billings were £222.2m compared to £232.1m in the prior year. Consumer revenue was £62.4m (2019: £58.9m) which produced a segmental profit of £5.3m versus £6.8m in the prior year. This fall in profit was primarily due to an increase in administration costs and exceptional redundancy costs of £0.4m

Appreciate Group has continued to attract increasing numbers of customers directly. However, the challenges with the legacy agency model in the Christmas savings business persist, and we are taking actions to mitigate this.

Significant improvements have been made in the customer offering during the period. We have taken our core product into the mobile era, creating a contactless-enabled digital gift card, which can be loaded into the wallet app on a smartphone. This can be delivered by various means – email, SMS or WhatsApp – and is simple, transparent and easy to use. This development allows instant celebration and reward of moments that matter to customers, with a wide range of redemption partners, both online and contactless in-store using a mobile device.

### Progress with our strategic business plan

We have made good progress during the year, continuing the implementation of our strategic business plan, as set out in December 2018, in building a robust and scalable platform from which to grow.

### Productivity

We have taken numerous steps to become more efficient and effective. During the year, we successfully completed a large-scale office relocation to Liverpool city centre, establishing a modern, collaborative working culture; we migrated to cloud-based computing and digital collaboration and workflow solutions (Office 365); we introduced new technologies to facilitate agile working; and we invested in our team and talent.

The project to implement a new Enterprise Resource Planning (ERP) system is progressing well, despite some COVID-19 related delays. This will provide the scalability, resilience and efficiency required for more seamless and automated back office support functions across the business.

In addition to facilitating the move to Liverpool, we streamlined the remaining operations based at Valley Road in Birkenhead to enable the sale of the site, as well as harnessing efficiencies through new channels. One example of this is a stronger focus on promoting chat for Customer Care, which has led to a 31 per cent increase in chat sessions and 8 per cent fewer voice calls year on year.

On 10 August we announced that we had completed the sale of our land and premises at Valley Road in Birkenhead to HP (Valley Road) Limited for £3.2m. The site had been substantially vacated since the relocation to Liverpool, but continues to house our fulfilment and reconciliation operations. A limited amount of space for these activities will be leased back as part of the agreement.

### Appeal

In terms of broadening our customer appeal, we have successfully tested two new products – Select Digital Gift Card and Giftli – as part of work to target currently untapped demand from a broader audience. We are using these learnings to further develop our digital strategy.

Leading our industry, we took gifting into the mobile era with the contactless-enabled digital gift card, which can be loaded into the wallet app on mobile devices and allow instant celebration and reward of moments that matter to customers. Important learnings from these trials are being incorporated into an enhanced proposition for Corporate clients.

\*\* Source: UK Gift Card and Voucher Association

As well as this innovation in product development, we have enhanced the experience and journey for Park Christmas Savings customers, streamlined our social media and marketing communications and added e-codes and e-cards to [highstreetvouchers.com](https://www.highstreetvouchers.com) and offered digital gift card to corporate clients.

### Clarity

To bring clarity to our offer for all customers, we have redefined and rationalised our brand architecture, which included renaming Park Group plc to Appreciate Group plc. We believe this more accurately reflects the Group's product range and position as an innovative payments, savings and rewards provider to Corporate and Consumer markets. This allows the Group to take full advantage of the growth opportunities available in an expanding market. We also refreshed the Park Christmas Savings brand through all channels including the website and app.

Key to supporting this has been the development of clear brand guidelines and a company tone of voice, as well as significantly boosting our Group brand activation and awareness activities, with targeted social media postings and community partnerships.

Our core business functions are now focused around products and market segment, centralising some of the activity previously conducted separately within the business units, and we have a robust and disciplined approach to new product development.

The number of product variants we offer has been consolidated and simplified, in particular reducing the number of single retailer physical products on sale through all channels.

We are now proposing to cease production of hampers and merchandise. This decision was initially taken for the Christmas 2020 season to protect the health of our workforce and provide our customers with certainty given the potential for disruption in the supply chain during the ongoing lockdown and potential of further restrictions. This enabled us to carry out a longer term review of the future of the hamper business and we have commenced consultation with colleagues about proposals to close this part of our business. Whilst hampers were the roots from which we

grew as a business more than 50 years ago, they now only equate for less than 2 per cent of billings and are no longer considered part of our future strategy. All hamper customers will be offered the chance to migrate to other Appreciate Group products so that we can help them continue to budget and pay for Christmas.

### Experience

We have taken significant steps to make us easier to work with for all of our customers, particularly in the digital space.

During the year we have created an end-to-end, fully digital experience for gift-card purchase, delivery and redemption, with contactless capability in a mobile phone wallet, working with Mastercard and CleverCards. We believe this has been, in many ways, a real game-changer for our industry, as it completely reimagines how gift cards should work in a mobile-enabled world.

We've also improved the digital and physical experience for our customers; enhanced the client on-boarding journey; worked to optimise the conversion rates on our websites; launched new ERP solutions, developed resilience and security in our networks, standardised our complaints process and established a Customer Committee to help drive improvements in the customer experience.

### Looking ahead

I am extremely proud to lead a team of colleagues who are dedicated to our purpose of creating joyful experiences and connecting people to the things in life they enjoy. This unwavering commitment has never been more evident than in recent months when they have risen to the challenge to support our customers and partners. Their commitment gives me confidence that, combined with our strategy, we are strongly positioned for the future.

**Ian O'Doherty**  
Chief Executive Officer  
12 August 2020



“

I am extremely proud to lead a team of colleagues who are dedicated to our purpose of creating joyful experiences and connecting people to the things in life they enjoy.

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## Chief Executive's Q&A



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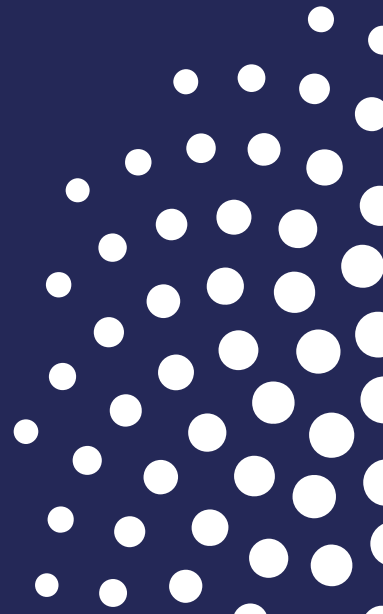
# Q

What was behind the change of brand to Appreciate Group?

# A

The Park brand was synonymous with a hamper business but that's not the organisation we are today. It's important that our brand is recognised for how the business has evolved and accelerated the range of digital products we offer to consumers and business customers.

At Appreciate Group, we've made it clear our purpose is to bring more joy into the world and we're now a brand built around this purpose. Everybody is behind this, and that's why our brand, our products and our culture – everything we do – reflects who we are.



# Q

**You've talked about accelerating the move to digital. What does that mean for Appreciate Group?**

# A

From introducing the UK's first ever fully digital gift card, to customisable e-codes that can be emailed to friends, families and colleagues, and personalised virtual cards for one-to-one distribution – we are at the forefront of our industry for innovation.

Our focus on developing new digital gifting products and pioneering new collaborations will continue and we've accelerated the roll out into these different markets as a result of the COVID-19 lockdown. This helps position us strongly for whatever becomes the 'new normal' along with the array of opportunities that are open to us through digital innovation.

# Q

**Why have you chosen to no longer produce hamper and merchandise orders?**

# A

Although we have proposed to stop producing hamper and merchandise orders going forward, we would plan to continue offering these customers alternatives to help them continue to budget and save for Christmas, including partnerships with other hamper providers. We initially took the decision not to produce hamper and merchandise orders for 2020 to protect the health of our colleagues – when we would typically have around 100 extra seasonal staff on site which would have made maintaining social distancing guidelines difficult. There was also significant risk of disruption to our supply chain with the ongoing lockdown and potential of further restrictions. We have since carried out a longer term review and, subject to consultation with colleagues, are proposing to stop production for the future now that hampers represent such a small part of our overall business and are no longer considered a key part of our strategy.

# Q

**How has COVID-19 affected the Company, customers and the team?**

# A

Our business has been around for more than 50 years and has survived some challenging times, but the current situation is unprecedented. We've had to adapt – as have many businesses – but we've flourished as a group, and it's been inspiring to see how the team has responded.

Investments we have made recently – in our culture and technology – have meant that we have been able to continue to operate effectively. We've accelerated the digital delivery of some of our key products, and that's meant streamlining processes in order to hit timelines we thought would be unachievable when lockdown was initially introduced. Everything we are doing now is aimed at emerging stronger than ever. Further details on our response to COVID-19 are provided in our going concerns disclosures on pages 71 to 73.



## Financial Review

Tim Clancy  
Chief Financial Officer

### Impact of Covid 19

At the start of lockdown in March 2020, just like many businesses across the UK, the Group followed Government guidance and temporarily closed its distribution and warehouse facilities to help stop the spread of coronavirus. With no means to fulfil physical orders at that time the Group's focus shifted to digital products.

In May 2020 the Valley Road facility reopened with social distancing procedures in place. Demand in our Corporate and Other Consumer areas reduced during the lockdown period with April demand 70 per cent lower than prior year. We have seen trading gradually improve in the new financial year; billings were down 47 per cent year on year in May, and 35 per cent down in June to give a year to date position of -48 per cent at the end of Q1.

Although the Christmas Savers order book is currently 9 per cent below the prior year, most customer plans are normally in place by March and we have seen normal cancellations trends since then, so this part of the business has to date, been unaffected.

Redemptions have also significantly fallen, with an 80 per cent decrease for vouchers and 61 per cent decrease for cards and e-codes compared to quarter one of the prior year. Despite this overall reduction in redemptions, which beneficially reduces cash outflow, we have seen a significant shift to online redemption partners and grocery retail, reflecting the flexibility of our products.

The Group has taken several actions to conserve cash by reducing discretionary expenditure. These actions include the following:

- Furloughing employees – The Group has utilised the Government's Job Retention Scheme with a number of employees being furloughed, whose pay has been topped up to 100 per cent by the Group. In quarter one of the financial year ending 31 March 2021, there were an average of 65 employees on furlough per month, for a total saving of £243,000.

- Dividend cancellation – The Group decided to cancel the dividend payment for 2020, which has conserved £6m of cash.
- Deferral of VAT payments – The Group has deferred £936,000 of VAT payments between March and June 2020. These are now payable by 31 March 2021.
- Employee remuneration revisions – The decision was made to cancel all annual pay reviews and bonuses.

The Board has reviewed five forecast scenarios, covering a range of likely outcomes: base case plus two downside and two upside scenarios. The Group is currently trading slightly ahead of the base case and has carefully considered the base case, downside scenarios, current trading and trends since the year end and the assessment of reverse stress tests. Having secured a £15m revolving credit facility we have adequate flexibility to provide sufficient cash headroom to enable the business to trade with confidence. Further details are contained within our going concern disclosures on pages 71 to 73.

The Board continues to actively manage the risks of the business which have been updated for the impact of Covid-19 on page 34. We are planning for a peak season which will be delivered whilst adhering to social distancing guidelines. The decision to close our hamper and third party packing business will give additional operational flexibility to achieve this. Following our technology investments over the last year, which further strengthen our business continuity plan, the majority of employees continue to effectively work from home.

### Billings and Revenue

The Group's products are split into the following categories:

- **Multi-retailer redemption products** – Love2shop vouchers, flexecash® cards, Mastercards and e-codes
- **Single retailer redemption products** – third party retailer vouchers, cards and e-codes
- **Other** – hampers, merchandise and consultancy fees



Following the adoption of IFRS15 in the prior financial year, multi-retailer redemption product billings are the gross value of goods and services shipped and invoiced to customers during the year. Revenue for multi-retailer redemption products is the net service fee received on redemption, cardholder fees and breakage which are recognised when multi-retailer redemption products are redeemed.

For single retailer redemption products and other, both billings and revenue are the gross value of goods and services shipped and invoiced to customers during the year.

Further details can be found in accounting policies on pages 74 to 77.

| Billings*                           | 2020<br>£m   | 2019<br>£m | Change<br>% |
|-------------------------------------|--------------|------------|-------------|
| Multi-retailer redemption products  | <b>354.3</b> | 362.4      | -2.2        |
| Single retailer redemption products | <b>52.9</b>  | 50.8       | +4.2        |
| Other                               | <b>12.7</b>  | 13.7       | -7.3        |
| <b>Total</b>                        | <b>419.9</b> | 426.9      | -1.6        |

Multi-retailer redemption product billings includes billings in respect of e-codes which are capable of being converted into either multi-retailer redemption products or single retailer redemption products. Revenue figures below reflect the product into which the e-code is converted by the cardholder.

| Revenue                             | 2020<br>£m   | 2019<br>£m   | Change<br>% |
|-------------------------------------|--------------|--------------|-------------|
| Multi-retailer redemption products  | <b>37.9</b>  | 41.1         | -7.9        |
| Single retailer redemption products | <b>62.1</b>  | 55.6         | +11.7       |
| Other                               | <b>12.7</b>  | 13.7         | -7.3        |
| <b>Total</b>                        | <b>112.7</b> | <b>110.4</b> | <b>+2.1</b> |

The mix of in-house, multi-retailer product remains high, in line with the strategy of promoting our own products. The mix of multi-retailer redemption products was 84.2 per cent of total billings, marginally lower than last year's 84.9 per cent.

#### Total revenue

# £112.7m

Revenue increased by 2.1 per cent to £112.7m due to a greater mix of single retailer redemption products which are reported gross in revenue as opposed to multi-retailer redemption products which are reported net in revenue. The value of multi-retailer revenue has decreased by 7.9 per cent offset by strong demand for single retailer redemption products which were 11.7 per cent higher, due to higher online demand, particularly e-codes which can be converted to single-retailer products.

#### Profit from operations

The Group's operations are divided into two principal operating segments:

- **Consumer** – which represents sales to consumers, utilising the Group's Christmas savings offering and our website, [highstreetvouchers.com](http://highstreetvouchers.com); and
- **Corporate** – comprising sales to businesses, offering primarily sales of the Love2shop voucher, flexecash® cards, Mastercards and e-codes in addition to other retailer vouchers.

All other segments comprise central costs and property costs which are shown separately in order to give a more meaningful view of divisional performance.

|                         | 2020<br>£'000  | 2019<br>£'000 | Change<br>£'000 |
|-------------------------|----------------|---------------|-----------------|
| Consumer                | <b>5,327</b>   | 6,809         | (1,482)         |
| Corporate               | <b>6,581</b>   | 7,789         | (1,208)         |
| All other segments      | <b>(5,512)</b> | (4,866)       | (646)           |
| <b>Operating profit</b> | <b>6,396</b>   | 9,732         | (3,336)         |

#### Consumer

In the Consumer business, customer billings have decreased by 4.3 per cent from £232.1m to £222.2m. Billings for Christmas savers were down by 4 per cent and there was a similar performance in Other Consumer billings, derived through the [highstreetvouchers.com](http://highstreetvouchers.com) website, which were also 4 per cent lower than last year, offset by other products which were 1.5 per cent lower. Revenue has increased by 5.9 per cent to £62.4m (2019 : £58.9m), primarily due to a higher mix of single retailer redemption products.

## Finance Review continued

Operating profit was £5.3m, a decrease of £1.5m (22.1 per cent) from the £6.8m achieved in the prior year. This was primarily due to an increase in administration costs, as explained below, and exceptional redundancy costs of £0.4m.

### Corporate

In the Corporate business customer billings have increased by 1.5 per cent, from £194.8m to £197.7m. This growth was due to £7.5m of new business, continuing good retention rates of existing clients (95 per cent) and strong online billings which were 13 per cent higher than prior year. Corporate revenue fell by 2.4 per cent over the prior year, from £51.5m to £50.3m due to a higher mix of card and digital products (66.6 per cent vs 60.0 per cent last year) which have more deferred revenue.

Operating profit decreased by 15.4 per cent per cent to £6.6m (2019: £7.8m) due to higher administration costs, as explained below.

### All other segments

Central and property costs increased by 12.2 per cent from £4.9m to £5.5m. This increase is due to the higher impairment cost of the Valley Road site at £1.8m (2019: £1.2m).

### Administration Costs

Administration costs increased from £17.4m to £20.0m due to the costs of strategy implementation and additional management and professional fees. Strategy implementation costs of £1.5m relate to the office relocation and rebranding and will be non-recurring.

### Reconciliation of adjusted to statutory profit

The Board believes that adjusted profit excluding exceptional items such as impairments and redundancy costs is the best measure of the underlying performance of the Group. This gives stakeholders a better understanding of the Group's trading position in the year by adjusting for items which are significant in value, infrequent and in the case of impairments, do not have a cashflow impact in the year.

|   | Operating profit<br>£'000 | Profit before tax<br>£'000 | Profit after tax<br>£'000 |
|---|---------------------------|----------------------------|---------------------------|
| 2020  |                           |                            |                           |
| Profit before exceptional items   | 10,072                    | 11,376                     | 9,187                     |
| Impairment of property, plant and equipment and available for sale assets | (1,813)                   | (1,813)                    | (1,813)                   |
| Impairment of goodwill  | (1,316)                   | (1,316)                    | (1,316)                   |
| Impairment of obsolete stock  | (124)                     | (124)                      | (124)                     |
| Redundancy costs  | (423)                     | (423)                      | (423)                     |
| Statutory profit  | 6,396                     | 7,700                      | 5,511                     |
| 2019  |                           |                            |                           |
| Profit before exceptional items   | 10,942                    | 12,514                     | 10,092                    |
| Impairment of property, plant and equipment                               | (1,210)                   | (1,210)                    | (1,210)                   |
| Statutory profit  | 9,732                     | 11,304                     | 8,882                     |

### Exceptional Costs

In September 2019, the Group relocated its head office from Birkenhead to Liverpool. Following this move, we have now successfully sold the freehold land and building at Valley Road, Birkenhead whilst securing a lease-back for the space still occupied by a small number of operational staff. Our balance sheet reflects the expected disposal of this asset, which is classified as an 'asset held for sale', following the previously announced impairment charge to the P&L account of £1.8m.

We have reviewed our brand engagement agency, FMI, acquired in 2016, which is reliant on one large client and also involved in business relating to event management which is heavily impacted by restrictions following lockdown. We have concluded that the goodwill is impaired relating to this acquisition, totalling £0.9m.

Subsequent to our year end, we have taken the decision to cease production of hampers. We have impaired the value of stock for hampers held at 31 March 2020 by £0.1m which reflects the likely re-sale value of these stock items. Additionally, we have impaired the value of Family Hampers customer lists by £0.4m.

During the year, we restructured our marketing department with the aim of creating different roles focused on digital marketing. The redundancy costs relating to employees made redundant following this review amounted to £0.4m.

### Finance income

Finance income decreased by 6.3 per cent to £1.5m from £1.6m. Average total cash held by the Group, including cash held in trust during the year increased by 1.7 per cent to £177m (2019 : £174m), however the yield achieved on this higher cash balance decreased due to the decrease in base rates.

### Taxation

The effective tax rate for the year was 28.4 per cent (2019: 21.4 per cent) of profit before tax. The increase compared to the prior year was primarily due to the fact that the increased impairment charge in respect of the Valley Road site and part of the impairment of goodwill did not attract tax relief. In addition to this, the cancellation of the corporation tax rate reduction to 17 per cent, which was due to be effective from 1 April 2020, has resulted in an increase in deferred tax charges in the current year.

### Earnings per share

Basic earnings per share (EPS) fell by 38.1 per cent from 4.78p in 2019 to 2.96p. Excluding the exceptional charge basic EPS is 5.04p (2019: 5.43p), down 7.2 per cent.

### Dividends

The Board has reviewed five forecast scenarios, covering a range of outcomes, and have carefully considered the base case scenario, current trading and trends since the year end and the assessment of reverse stress tests. The UK trading conditions continue to be uncertain and at this point, before the outcome of our peak Q3 trading period, the Board consider it prudent not to recommend a dividend for this financial year (prior year 3.20p per share).

It has been the Board's policy to distribute just over half of post-tax profit as dividend, with one third of that as an interim dividend and the remaining two thirds as a final dividend. The Board intends to return to that policy as soon as it is appropriate to do so.

### Cash flows and treasury

Cash flows from operating activities were £5.6m, £1.2m (18.1 per cent) lower than the prior year, due to an increase in monies held in trust and higher tax payments, offset by a working capital cash inflow. Monies in trust grew from £99.3m in 2019 to £102.7m. This growth was primarily in the Park Card Services Limited e-money Trust (PCSET) to support the e-money float in accordance with regulatory requirements. This increased by £7.6m to £44.2m due to higher levels of card and digital business.

In addition, £55.1m (2019 : £60.9m) was held by the Park Prepayments Trustee Company Limited. The trust holds payments received in respect of orders for delivery the following Christmas. The conditions for the release of this money to the Group are detailed in the trust deed, which is available at [www.getpark.co.uk](http://www.getpark.co.uk).

Also, at 31 March 2020, the Group held £3.4m of other ring fenced funds (2019 : £1.8m).

At the end of March 2020 £29.6m (2019: £36.9m) of cash was held by the Group. This was £7.2m (19.6 per cent) lower than the prior year due to the switch to a higher mix of regulated products which is cash consumptive in the short term plus higher capital expenditure relating to strategy implementation.

The total amount of cash and deposits net of any overdraft position held by the Group, combined with the monies held in trust, has decreased in the year by 1.3 per cent to £132.3m from £134.0m. These total balances peaked at just under £234m in the year, representing a marginal decrease of £1.2m from the prior year.

We have completed a bank financing exercise of an unsecured 5 year revolving credit facility (RCF) with Santander UK of £15m plus an additional uncommitted accordion of £10m. This facility will provide the additional financial flexibility to protect against downside risk in the short term; whilst enabling longer term growth, as well as investing in the continued switch to digital products. The RCF has 3 covenant requirements, as detailed within the going concern section of the Accounting Policies on pages 71 to 73.

### Intangible Assets

As part of the Board's strategy to develop a scalable and resilient platform to enable future growth, we have continued to invest in our technology platform in the year with £3.1m of additions (prior year £0.8m). This included investment in a new ERP platform, Microsoft Dynamics 365.

### IFRS16

With effect from 1 April 2019 we adopted IFRS16 relating to leases. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position. Under IFRS16 the Group recognises a right-of-use-asset (ROUA) and a lease liability (LL) at the lease commencement date. At the balance sheet date this balance was £3.8m and further details are available in note 19.

### Trade and other payables

Included within trade and other payables is deferred income in respect of multi-retailer redemption products (vouchers, cards and e-codes). Revenue is deferred for service fees and breakage, net of discount. The amount of revenue deferred at March 2020 has increased to £7.2m from £7.0m in the prior year due to an increase in card mix and slower redemption of paper vouchers. The increase in card mix, where breakage levels are higher, has resulted in greater deferred revenue.

### Provisions

At 31 March 2020, provisions have decreased to £53.8m from £58.3m. This was mainly due to an increase in the amounts provided in respect of flexecash® cards of £1.1m and a decrease in the amounts provided for unspent vouchers of £6.1m. The value of unspent vouchers included in the provision, arises primarily from sales in the Corporate business.

### Pensions

The Group continues to operate two defined benefit pension schemes, where pensions at retirement are based on service and final salary. These schemes are now closed to future accrual of benefit arising from service with the Group. These schemes have a combined net pension surplus of £4.2m based on the valuation under IAS19 performed at 31 March 2020 (2019: surplus of £1.9m).

The Group has recognised net interest income of £44,000 (2019: £73,000) in the statement of profit or loss in respect of the pension schemes. In addition, the Group has recognised a re-measurement gain in the statement of comprehensive income (SOC1) of £1.9m (2019: loss of £0.8m) net of tax.

In the year ended 31 March 2020, there were no contributions by the Group to the schemes (2019: £0.5m). The latest triannual scheme funding reports, performed as at 31 March 2019, indicated that one scheme had a technical provisions deficit (reflecting the liabilities to pay pension benefits in relation to past service as they fall due) of £0.1m and one had a surplus on the same basis of £1.6m. No further contributions to either scheme are currently required. The next triannual valuation will be undertaken as at 31 March 2022 when the positions will be reassessed.

### Tim Clancy

Chief Financial Officer  
12 August 2020

\* See page 77 in accounting policies for a reconciliation of billings to revenue

## Culture, People and Values

We're a  
**feelgo**

At Appreciate Group, we believe that clarity of purpose is central to our business success.

Not only do purpose-focused companies drive stronger profitability than those without, they also outperform them in terms of customer loyalty and trust, speed of decision-making and innovation, and attracting the best minds.



A photograph of a woman with curly red hair and a man with a beard, both smiling and looking at a laptop screen. The woman is in the foreground, wearing a blue shirt, and the man is behind her, wearing a pink shirt. The background is a blurred office setting.

# Good business!

The transition of our Company over the last year has enabled us to clearly define our purpose, and this now filters through our culture, our environment and the commitments we make.

We believe our purpose – to create more joy in the world – will continue to fuel our ongoing growth and success, as it provides us all with a guidepost to decision making throughout our organisation, it sets expectations on how we treat each other – all those we serve and work alongside – and why we do what we do as an organisation.

## Culture, People and Values continued



### Our Trademark Behaviours

Throughout our recent transitional period, we've spent time building our business around a new culture, as well as a clear organisational strategy and a set of Trademark Behaviours which set out how we behave and commit as a Group to our customers, our partners and each other.

Our Trademark Behaviours are:

#### Respectful

We value the contribution and opinions of others and when we act with respect we optimise everything. Respect matters and we encourage diversity of people, thought and ideas.

#### Collaborative

We value each other, and we work together as colleagues, clients and partners so that we consistently exceed our goals. Together, we will achieve amazing things.

#### Dynamic

We are curious about the world, we are passionate about agility and we love what we do. Pushing the boundaries of the possible is something we are committed to, so we can lead our market and grow our share of trust from customers and stakeholders.

#### Empathetic

We are human, and we value everyone. The power of our 'we, not I' culture will help us break down barriers, accept and celebrate cultural differences and value diversity.

Through these Trademark Behaviours, we're able to encourage teams and individuals to fulfil both the needs of the business and their own potential.





# Social responsibility

As part of our ongoing commitment to environmental and social good, we believe we should lead by example in our industry and in our communities.

We also believe that tangible action matters, and we want to be known and respected as a company that fulfils its purpose in the world and does what it says it will do.

We feel we have a duty to be a force for good in people's lives, and not just the customers and organisations that put their faith in us.

Over the years, we have continued to support significant local projects like 'The Hive', a local youth zone in

Birkenhead which helps young people to learn, flourish and grow. However, with our move to Liverpool, we've now expanded this support to other areas of the Liverpool City Region.

In the last year alone, we've supported a range of charitable causes through our Community Group, created joy with a range of collaborators and partners, and launched a new Volunteering Policy for our colleagues to give back to the region that has offered us a platform to succeed.

## Creating joy through partnership

**Working with Liverpool and Everton football clubs, we handed out more than 300 hampers to some of the most in-need areas of the city during Christmas 2019.**

The hampers were distributed through schools, community centres and foodbanks by the clubs' charity arms, which support thousands of young people and families. They were handed over to school children in North Liverpool as well as being distributed to beneficiaries of the Liverpool FC Foundation's programmes at Anfield Sports and Community Centre, Positive Futures and North Liverpool Foodbank at St Andrew's Community Network and Toxteth.

Through Everton in the Community (EitC), Everton's UK-leading community outreach arm, hampers were given to residents and local families to support them over the Christmas period, as well as to people experiencing social isolation.

The partnership with EitC has since grown, and we are now sponsoring its inaugural 'Breakthrough' awards, which support the achievements of young people in the region, as well as finding ways to support its community programmes through our team, office facilities and volunteering.

We also supported the city's celebrated Santa Dash, with hundreds of runners raising money for good causes, and will be the event's main sponsor this year.

In January 2020 we launched a new partnership with the iconic Mersey Ferries, taking over the 'Dazzle' commuter ferry between Liverpool and Seacombe from Blue Monday, as part of a three-week sponsorship programme.

Ferry passengers were treated to the sounds of the Liverpool Harmonic Gospel Choir among other events, activities and giveaways, as part of our pledge to create joy in the world for local people through memorable experiences.



## Culture, People and Values continued



## Our Community Group

Our Community Group includes representatives from across business lines, and the team is coordinating not only the funds we use for social good but rallying the Company and our colleagues behind a series of colleague-led charitable causes.

So far during this annual review period, the Community Group has helped to support around 50 charities, community groups and schools.

Through a company picnic, hamper sale, raffles and a furniture sale of equipment from our Valley Road site, colleagues have also helped raise more than £8,000 for Zoe's Place, an independent children's charity providing palliative, respite and end of life care to babies and infants aged from birth to five years old.

We've also recently donated to much-needed foodbank charities, which are supporting people experiencing financial hardship in communities across the region during the COVID-19 pandemic.

Donated to Zoe's Place

# £8,000



## Volunteers creating Joy

At the end of 2019, we launched our first Volunteering Policy, and we have been building relationships with a range of local and national charities and communities, including ChildLine, NSPCC and Everton in the Community to identify opportunities for our colleagues to get involved and give back.

Due to coronavirus, some of the key projects we were due to support have been delayed, but as soon as things return to some degree of normality, our team of willing volunteers will be out supporting these, and other, worthy causes.

## A culture of collaboration and openness

**Over the course of this annual report review period, employee engagement has been a crucial part of our transition.**

We now have a rich and varied series of channels with which to communicate with colleagues, encouraging openness and dialogue, as well as enhancing collaboration.

Digital display screens within our new Chapel Street offices, part of a comprehensive set of measures to boost engagement and collaboration, now enable us to promote internal achievements and communications, with a daily refresh of content.

Most recently, we have launched Connect – a new internal communications and learning channel to promote two-way dialogue, share rich content (eg videos and podcasts) and easy access to key materials and communications, including weekly Chief Executive updates.

Having launched just after the COVID-19 lockdown, Connect has provided a critical and effective channel to converse with and survey colleagues despite the disruption of remote working. Available 'anytime, anyplace and anywhere', more than 80 per cent of colleagues have registered and engaged with the app-based platform, with page hits in the region of 1,000 per week.

The launch of our new internal programme 'Imagin8' in July 2019 has also been hugely successful. Built around a core group of engagement champions – our 'Imaginoos' – Imagin8 is enabling us to lead the cultural shift of our business through our extensive change programme. Engagement champions are also providing us with a vital voice of colleague insights, and their candid, open feedback to decisions and initiatives is proving hugely valuable.

This spirit of collaboration also extends to our working environment and is why we felt it was important to design joy into our workplaces in Valley Road and Chapel Street.



## Celebrating diversity of talent

**During the period, we have proactively invested in talent acquisition capabilities to ensure we reach broader and more diverse talent pools.**

Our employer brand and social media reach is evolving and improving, as we encourage a diverse range of potential candidates to share our journey to create joy in the world.

Our recruitment processes have continued to improve, as we engage with partners who are committed to achieving a diverse workforce internally and with the partners they serve. In addition, we have developed interview guides and competency frameworks to eliminate the possibility of unconscious bias.

Our policies are evolving also, with greater focus on being more family friendly so that we can continue to find more ways to provide the support that families increasingly need and making us an attractive proposition to the key talent we require to fulfil our growth objectives.

In reference to our gender pay commitment, we are delighted to have signed up to the HM Treasury's Women in Finance Charter, with shared commitments to promote better gender balance.





# Designing joy in our workplace

## Relocation and sustainability

Many talented people have joined the Company over the last year and, alongside the incredible team who have worked with us for many years, our colleagues have now become our biggest advocates.

They are helping to spread the word about the exciting times we're experiencing and the journey ahead for our Company. This has been particularly evident during our move to Liverpool, which has been a huge undertaking and a critical milestone in our business transformation journey.

We've committed to and created a great place to work, reflecting our purpose, bringing greater consistency to our culture and embedding our values.

### Rebrand and relocation

Relaunching as Appreciate Group, we spent a considerable amount of time investing in a brand that truly reflects who we are, and what we have the potential – and ambition – to become.

We have created a brand that instils confidence amongst our stakeholders, that has energy and enthusiasm, a sense of modernity, as well as linking closely to our 50-year history of supporting joyful events in people's lives. It is reflected now in our location.



### Coming alive in Liverpool

We chose Liverpool because we wanted to create a "fit for future" workspace that would allow 230 of our colleagues in the core part of our business to be in one space; one that offered a collaborative working environment.

We created a space that allows us to move the business along significantly in the way we interact internally, as that ultimately drives greater effectiveness as a group.

Colleague feedback during and since our move has been incredible, with 90 per cent stating, "the new office space makes me proud to work for the Company", and 78 per cent believing the new office environment "promotes collaboration and provides me with the space I need to do my job".

We're now located in offices with 26,000 square feet of space – spread over two floors – and our spaces have been designed to drive high levels of collaboration, to promote agile working, better efficiency and more joy in our workday. We've designed our culture into our work environment.

One of the key criteria for selecting Chapel Street in Liverpool as our new home was to help retain and attract the kind of people and skills we need now and in the future, and that is bearing fruit with the new talent we're attracting to work with us and drive our business forward.

### Sustainability built-in

Fully Disability Discrimination Act (DDA) compliant, our new office space at Chapel Street also adheres to the Disability Confident scheme, so we can welcome and support people of all abilities into our business.

Solar screening on external windows enable the building to reflect heat, preserving our use of energy for air conditioning, we are limiting paper through smart new digital technologies and paperless office environments, and every member of staff has a reusable cup for daily use.

We are progressing towards Streamlined Energy and Carbon Reporting (SECR) compliance and our commitment to reducing our environmental impact is evolving, so we expect to make more active changes and secure new accreditations over the forthcoming year to enhance our sustainability goals.

## S172 Statement

**The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing so had regard, amongst other matters to:**

- a. the likely consequences of any decision in the long term;
- b. the interests of the Company's colleagues;
- c. the need to foster the Company's business relationships with suppliers, customers and others;
- d. the impact of the Company's operations on the community and the environment;
- e. the desirability of the Company maintaining a reputation for high standards of business conduct; and
- f. the need to act fairly between members of the Company.

The Directors are aware of their responsibility to place their decisions, where appropriate, within the long term interests of the Company. Our 5 year Strategic Plan is the means by which we test our decisions and deliver our long term goals of enhanced shareholder value, colleague satisfaction and a positive impact upon the communities in which we are based. It is also the means by which we measure the likely impact our decisions may have upon the environment.

Our strategic business plan aims to build on the high regard in which Appreciate Group is held by existing customers to capture more of the available market in the future. The plan has been designed to deliver this through improving the customer experience, simplifying our offer, making our products and services available to a wider customer base, and developing our digital platforms to meet the needs of our customers both now and in the future.

**Our plan has four strategic pillars. These are:**

01

### Productivity:

We will be more efficient and effective.

02

### Appeal:

We will broaden our customer appeal to drive growth.

03

### Clarity:

We will focus on our multi-retailer redemption proposition.

04

### Experience:

We will be easier to work with for all of our customers.



## Key decisions taken during the year include:

01

**The relocation to Liverpool**

02

**Investment in people, technology and service**

03

**The separation of hamper production**

04

**Simplified product range**

05

**Review of brand architecture**

06

**Enhanced back office support functions**

The board believe that all of these decisions will improve the performance of the business in the long term through increased shareholder value, employee engagement and productivity.

Please see Risk Factors on page 34 and Financial Review on page 18 for information on our response to Coronavirus. As a result of the Coronavirus crisis our Senior Leadership Team has met every day to discuss any implications for the business. Any decisions taken are cascaded throughout the business by the managers concerned so that colleagues are fully aware. Our Human Resources Department has also provided continuous updates. The Coronavirus crisis has accelerated our move towards becoming a digital first business by increasing the number of digital products we offer and this will have a long term impact on the business.

We are highly focused on doing the very best for our people, by providing them with the necessary tools, support, training and development opportunities to succeed and by establishing a strong culture that supports them working together with clarity and purpose. Colleagues were informed about matters of concern to them via all employee meetings and the Chief Executive's weekly update. The Chief Executive and the Chief Financial Officer chair these meetings with updates provided to the Board. We also have a specific employee engagement channel (Connect) which keeps colleagues up-to-date on matters of concern to them. We have an Employee Engagement Officer who works with our employee "Champions"; individual colleagues are encouraged to raise issues with the Champion for their particular area. These issues may then be raised with senior management and ultimately the Board. The Champions process was used to engage colleagues in the planning and execution of our move to Chapel Street which was a significant project during the year.

Colleagues are encouraged to become involved in the Company's performance via our Employee Share Save Scheme. We believe that a common awareness on the part of all colleagues of the financial and economic factors affecting the performance of the Company is achieved via our all employee meetings and the Chief Executive's weekly update. In summary, the directors have engaged with colleagues via the reports of the companies executive officers and the directors believe that they have factored colleague well being into their thinking.

We have well established and dedicated teams to support business relationships with our customers, redemption partners and suppliers. The performance of these teams is monitored and reported upon via the Chief Executive and Chief Financial Officer Board reports with all appropriate business decisions taken accordingly. Both our Chief Executive and Chief Financial Officer are executive directors of Appreciate Group plc. As main Board members they are able to provide feedback to the Board on any issues raised by colleagues or investors or suppliers.

We have appointed a Senior Independent Director who is available to meet shareholders and we provide regular updates to shareholders. The executive directors held numerous meetings with shareholders during the year where they provided updates on the Group's performance and briefings on our strategy. Investor feedback was relayed back to the full Board and featured in Board discussions and appropriate decisions. Please see our Corporate Governance section for further information on how we engage with shareholders.

Part of our business is regulated by the Financial Conduct Authority and it is kept informed of developments within that business via the returns we make.

We are aware of the impact our operations have on the community and the environment and take steps to mitigate any disruption or negative impact.

We strive to maintain high standards of ethical behaviour in the knowledge that this will be expected by our customers, colleagues, redemption partners and suppliers. We recognise that our ethical behaviour will determine the success of our business. We have internal procedures which seek to implement employment legislation dealing with treating colleagues fairly.

The directors are aware of the changing economic landscape resulting from the Covid-19 crisis and the risks this poses to all business including our own. The safety of our people is of paramount concern. These are issues which must be taken into account when taking decisions regarding the future of our business.

## Principal Risks & Uncertainties

# Financial risks

| Risk area                                      | Potential impact   | Mitigation  |
|--|--|---|
| Group funding                                  | The Group, like many other companies, depends on its ability to continue to service its debts as they fall due and to have access to finance where this is necessary.  | <p>The Group manages its capital to safeguard its ability to operate as a going concern. The Group has access to funds for working capital from the PPPT for a defined period in the year, although the Group has not used this facility in either of the last two years.</p> <p>The Group has secured a 5 year RCF which will provide additional financial flexibility.</p> <p>In addition the Group has a high level of visibility of future revenue streams from some of its Consumer business. The funding requirements of the business are continually reforecast to ensure that sufficient liquidity exists to support its operations and future plans.</p> |
| Treasury risks                                 | The Group has significant funds on deposit and as such is exposed to interest rate risk, counterparty risk and exchange rate movements.  | The Group treasury policy ensures that funds are only placed with and spread between high quality counterparties and where appropriate any exchange rate exposure is managed, utilising forward contracts, to minimise any potential impact. Some funds are placed on fixed term deposits to mitigate interest rate fluctuations.   |
| Banking system                                 | Disruption to the banking system would adversely impact on the Group's ability to collect payments from customers and could adversely affect the Group's cash position.  | The Group seeks wherever possible to offer the widest possible range of payment options to customers to reduce the potential impact of failure of a single payment route.   |
| Pension funding                                | The Group may be required to increase its contributions to cover any funding shortfalls.   | The Group's pension schemes are closed to future benefit accrual related to service. Funding rates are in accordance with the agreements reached with the trustees after consultation with the scheme actuary.  |
| Financial services and other market regulation | The business model may be compromised by changes in existing regulation or by the introduction of new regulation. Possible new regulation could include a requirement to ring fence funds for vouchers sold to consumers. This would adversely affect the Group's cash position. | The Group has a regulatory team that monitors and enforces compliance with existing regulations and keeps the Group up to date with impending regulation. The Group shares the objectives of Government in treating customers fairly and in the protection of customer prepayments. The Group operates a number of trusts to safeguard funds held on behalf of customers.   |
| Credit risks                                   | Failure of one or more customers and the risk of default by credit customers due to reduced economic activity.   | <p>Customers are given an appropriate level of credit based on their trading history and financial status, and a prudent approach is adopted towards credit control.</p> <p>Credit insurance is used in the majority of cases where customers do not pay in advance.</p>  |

# Operational risks

## Risk area Business continuity

### Potential impact

Failure to provide adequate service levels to customers, retail partners or other suppliers, resulting in a failure to maintain services that generate revenue.

### Mitigation

The Group has a hybrid technology resiliency strategy incorporating on premise and Cloud high availability services. We have three separate data/comms centres and a remote recovery site for core data and infrastructure to ensure that service is maintained in the event of a site loss event. We have implemented Microsoft Office 365 which supports full remote working capability for all office based staff.

Our focus is on the elimination of any single point of failure in our IT systems.

The Group has decided to upgrade its IT Systems by implementing a new ERP system, Microsoft Dynamics, which will provide scalability, resilience and efficiency.

The Group plans and tests its business continuity procedures in preparation for catastrophic events and also to deal with the existence of counterfeit vouchers or cards.

## Cyber security

There is a risk that an attack on our infrastructure by an individual or Group could be successful and impact the availability of critical systems.

Our infrastructure has a layered approach to cyber security with proactive external and internal monitoring and alerting designed to prevent unauthorised access and active defence to reduce the likelihood and impact of a successful attack. We are ISO 27001 certified.

## Data management

Incorrect data retention, data management or data loss with customer, financial, regulatory, reputational impact

We have implemented a new Data Warehouse with automated data cleansing and active data management per GDPR rules; we have Active Data loss prevention protocols in messaging platforms and have deployed Microsoft Office 365 with higher encryption standards; we are PCI and ISO 27001 certified.

## Technology risk

Hardware and software obsolescence causing system failure with customer, financial, regulatory, reputational impact

The Group is actively addressing hardware and software obsolescence and is implementing a new ERP system, Microsoft Dynamics as well as hybrid Cloud solutions which will improve scalability, resilience and efficiency.

Implementation of new hardware, software, managed services causing system failure with customer, financial, regulatory, reputational impact

Developed and purchased software and services are extensively tested prior to implementation. There is a robust vendor management process for critical service suppliers.

## Loss of key management

The Group depends on its directors and key personnel. The loss of the services of any directors or other key employees could damage the Group's business, financial condition and results.

Existing key appointments are rewarded with competitive remuneration packages including long term incentives linked to the Group's performance and shareholder return.

## Relationships with high street and online retailers

The Group is dependent upon the success of its Love2shop voucher and flexecash® card. These products only operate provided the participating retailers continue to accept them as payment for goods or services provided. The failure of one or more participating retailers could make these products less attractive to customers.

The Group has a dedicated team of managers whose role it is to ensure that the Group's products have a full range of retailers. They also work closely with all retailers to promote their businesses to our customers who utilise our vouchers and cards to drive forward incremental sales to their retail outlets. Contracts which provide minimum notice periods for withdrawal are in place with all retailers and are designed to mitigate any potential impact on our business.

We are a Mastercard issuer and use the services of a transaction processor for some of our products to be accepted at retailers.

## Failure of the distribution network

The failure of the distribution network during the Christmas period, for example a Post Office strike, road network disruption or fuel shortages could adversely impact the results and reputation of Appreciate's brands.

Wherever possible the Group seeks to utilise a wide range of geographically spread carriers to mitigate the failure of a single operator.

The strategy towards digital will also help mitigate this risk.

Principal Risks & Uncertainties continued

## Operational risks continued

| Risk area                       | Potential impact   | Mitigation  |
|---------------------------------|--|---|
| Brand perception and reputation | Adverse market perception in relation to the Group's products or services, for example, following the collapse of a competitor. This could result in a downturn in demand for its products and services.                                 | Operation of a process of continual review of all marketing media, material and websites to promote transparency to customers.<br>Extensive testing and rigorous internal controls exist for all Group systems to maintain continuity of online customer service.<br>Our brand strategy has been thoroughly reviewed.   |
| Promotional activity            | The success of the Group's annual promotional campaign is essential to ensure the continued recruitment of customers. Failure to recruit would result in loss of revenue to the Group. Promotional activity must also be cost effective. | Detailed management processes that are designed to optimise the cost of recruiting customers are in place.  |
| Competition                     | Loss of margins or market share arising from increased activity from competitors.  | The Group has a broad base of customers and no single customer represents more than 4 per cent of total customer billings.<br>Significant resources are dedicated to developing and maintaining strong relationships with customers and to developing new and innovative products which meet their precise needs.   |
| Coronavirus (COVID-19)          | Coronavirus poses a threat to both the health of employees and the businesses of Appreciate Group.   | Plans for business continuity, working practices, staff deployment and welfare across sites, working from home and hygiene precautions have been implemented. They are reviewed on an ongoing basis.<br>The financial impact upon the business is monitored closely. We have modelled various financial scenarios to cover, for example, liquidity risk. They contain mitigating actions such as obtaining bank finance or altering the mix of products sold. We have added to our range of digital products as part of our strategy. For further details on how we model the businesses cash requirements, please see the Financial Review on pages 18 to 21.<br>The closure during lockdown of high street stores may prevent the receipt and redemption of our paper vouchers. We continued to receive and redeem vouchers for essential stores on a limited service basis during lockdown, with the safety of our staff of paramount concern, and our operations will return to normal, again with the safety of our staff of paramount concern, as high street shops re-open.<br>The potential impact of coronavirus on our production, warehousing and distribution facilities has been assessed.<br>We are reviewing our "Working from Home" policy and procedures and will only require all staff to return to work when it is safe to do so.<br>If there is a "second wave" of the virus we believe all relevant staff can work from home. If the high street is closed with only essential shops opening then we can offer a limited service in order for customers to use our products to purchase essential items. We will also continue to enhance our digital product offering accordingly. |

Pages 1 to 34 of the annual report form the Strategic Report. The Strategic Report was approved by the Board and signed on its behalf on 12 August 2020

**Ian O'Doherty**  
Chief Executive Officer





# Corporate Governance

- 38 The Board
- 40 Directors' Report
- 45 Corporate Governance
- 51 Remuneration Report
- 54 Independent Auditor's Report

# 02

## The Board

# Experience & expertise



**Ian O'Doherty**  
Chief Executive Officer

Ian was appointed to the Board and became Chief Executive Officer (CEO) on 1 February 2018. He has a strong background in financial services, specifically in banking, payments and card services, having worked at MBNA for 26 years, most recently as Chairman and CEO of MBNA Limited in the UK, a position he held from 2008 to 2017. From 2015 to 2017, he was deputy chair of the UK Cards Association, having been a Board member since 2008, and he was a member of the interim main Board of UK Finance from 2016 to 2017. He has an MBA from Carroll Graduate School of Management, Boston College, USA, and is a fellow of the Institute of Bankers in Ireland. He is a non-executive director and Chairman of Chester Race Company Limited and is a governor on the Board of the King's School, Chester. He has a service agreement with the Company entered into on 14 November 2017 which requires 6 months' notice of termination by either party.



**Laura Carstensen**  
Non-Executive Chairman

Laura was appointed to the Board as a non-executive director on 23 September 2013 and became Non-Executive Chairman on 3 June 2016. She has a service agreement with the Company entered into on 13 September 2013 which requires three months' notice of termination by either party. She is a former partner in city law firm Slaughter and May, a former member and deputy chairman of the UK Competition Commission (now the Competition and Markets Authority) and a former commissioner of the Equality and Human Rights Commission. She was formerly a non-executive director of The Co-operative Bank plc where she chaired the Values & Ethics Committee and is currently Senior Independent Director of A J Bell plc. She was educated at Withington Girls School in Manchester and read English at St Hilda's College, Oxford. Mrs Carstensen is chairman of the Group's nomination committee and a member of the audit and remuneration committees.



**Tim Clancy**  
Chief Financial Officer

Tim was appointed to the Board on 28 August 2018 and is the Chief Financial Officer (CFO). He is an Associate of the Chartered Institute of Management Accountants and joined the Group from Assurant Europe where he was CFO. Assurant Europe is the European subsidiary of Assurant Inc. the US-listed global insurance provider. His previous roles include, from 2011 to 2013, Finance Director of Lifestyle Services Group, an insurance administrator and outsourcing provider and, from 2009 to 2011, Commercial Finance Director of Shop Direct Group. Before then he spent over 10 years in the travel industry in many finance and general management roles including Finance Director of Airtours and Managing Director of Going Places. He has a service agreement with the Company entered into on 11 May 2018 which requires 6 months' notice of termination by either party.







## John Gittins

Non-Executive Director

John was appointed to the Board as a non-executive director on 22 September 2016 and as Senior Independent Director on 25 September 2019. He is a graduate of the London School of Economics and is a Chartered Accountant. He has a service agreement with the Company entered into on 22 September 2016 which requires three months' notice of termination by either party. He serves as independent non-executive director and chairman of the audit committee on the Board of Nichols plc, the AIM listed international soft drinks business. In addition, he is finance trustee of Claire House Children's Hospice. Previously, he worked for over 20 years in an executive capacity, operating as CFO across a number of sectors within UK listed, multi-site, national and international businesses. Mr Gittins is chairman of the Group's audit committee and a member of the remuneration and nomination committees.



## Sally Cabrini

Non-Executive Director

Sally was appointed to the Board as a non-executive director on 25 September 2019. Sally is a graduate of Anglia Ruskin University and a Fellow of the Chartered Institute of Personnel and Development. She has a service agreement with the Company entered into on 25 September 2019 which requires three months' notice of termination by either party. She was a member of audit and risk committees and Chair of the remuneration committee of Lookers plc. She is also a non-executive director and chair of the remuneration committee at First Group plc. Her executive experience includes human resources, transformation and IT roles with Interserve Group Limited and United Utilities plc. Mrs Cabrini is chairman of the Group's remuneration committee and a member of the audit and nomination committees.

### Committee membership

-  Audit committee
-  Nomination committee
-  Remuneration committee
-  Chairman

### Outgoing members

#### Michael de Kare-Silver

Non-Executive Director

Michael was appointed to the Board as a non-executive director on 23 September 2013 and was the Group's Senior Independent Director. He had a service agreement with the Company which ended in September, 2019. Mr de Kare-Silver was chairman of the Group's remuneration committee and a member of the audit and nomination committees.



## Directors' Report

The directors submit their report for the year ended 31 March 2020 for Appreciate Group plc, registration number 1711939 (the Company).

### Profit and dividend

The Group profit for the financial year, after taxation, was £5.5m (2019 – £8.9m).

As described in the Financial Review on pages 18, 20 and 21, the Board do not consider it prudent to recommend a dividend for this financial year (2019: 3.20p per share).

### Principal activities

A statement describing the business activities of the Company and its subsidiary undertakings is set out on pages 12 to 15 with comments on current and future developments in the Chairman's Statement on pages 10 to 11. The principal subsidiary undertakings and their activities are set out in note 8 to the accounts.

### Business review

A review of the Group's activities over the financial year is contained in the Chairman's Statement on pages 10 to 11 and in the Chief Executive's Review on pages 12 to 15.

### Share capital

#### Issue of new ordinary shares

No awards were made under the 2009 long term incentive plan (LTIP) during the year so no new shares were issued.

#### Grant of Strategic Growth Plan awards

The annual LTIP award has been replaced, for the CEO and the CFO, with a one-off Strategic Growth Plan (SGP), which will operate over a five year performance period from 1 October 2018 to 30 September 2023. Regular LTIP awards will not be made to the participants of the SGP during this period.

The SGP will provide participants with a pool of shares with a value equal to 10 per cent of any cumulative shareholder value created above a compound hurdle rate of 10 per cent per annum. The CEO will be allocated a 45 per cent share of the pool and the CFO will be allocated a 25 per cent share of the pool.

Initially, only the CEO and CFO will participate in the SGP. The remaining 30 per cent of the SGP pool will be reserved for allocation to new participants.

An overall cap on the maximum number of shares that can be granted under the SGP is set at 5 per cent of the outstanding share capital at grant to prevent excessive payouts or dilution. This will therefore sit outside of the current share plan limits and therefore be in addition to the current 10 per cent limit that applies for LTIP and SAYE awards.

The Committee will have discretion to adjust the value of the award at the end of the measurement period, for example to prevent perverse outcomes (either excessive or punitive) which are as a result of factors outside of participants' control, including (but not limited to) a change of control or other merger and acquisition activity.

#### Employee Share Save Scheme (SAYE)

The directors are eligible to participate in the SAYE, details of which are shown in the Remuneration Report on page 53.

#### Major shareholders

At the date of this report the following had notified interests in the share capital of the Company of 3 per cent or more:

|  | No of shares | %     |
|--|--------------|-------|
| Artemis Investment Management LLP                          | 28,879,222   | 15.50 |
| Premier Miton Group plc (previously Miton Group plc)       | 20,955,378   | 11.25 |
| Schroder plc   | 20,486,968   | 10.99 |
| SFM UK Management LLP                                      | 15,660,000   | 8.40  |
| Unicorn Asset Management Limited                           | 13,208,797   | 7.09  |
| Investec Wealth & Investment Limited                       | 9,428,815    | 5.06  |
| Investec Asset Management Limited                          | 7,250,000    | 3.89  |
| Cazenove Capital Management Limited                        | 6,925,875    | 3.72  |
| The Diverse Income Trust plc                               | 6,230,190    | 3.34  |
| Janus Henderson Group plc (previously Henderson Group plc) | 5,890,047    | 3.16  |

## Directors and their interests

The directors who were in office during the year ended 31 March 2020, are shown on pages 38 and 39.

Details of directors' and connected persons' share interests in the Company are shown in the Remuneration Report on page 53.

## Going concern

The Group closely monitors and carefully manages its liquidity risk. Cashflow forecasts and sensitivity analyses are regularly produced. This year, in light of the uncertainty resulting from COVID-19, several scenarios have been modelled as well as reverse stress tests run including, but not limited to, accelerated redemption of paper vouchers and reductions of varying size in billings across the Group's revenue streams.

### Overview of the business

The Group's main products are provided in three formats: paper, card and digital. Paper is unregulated and provides a working capital benefit to the Group, as funds received for paper vouchers go into the Group's free cash account, once they are dispatched. Card and digital are provided through the Group's e-monies license and are held in trusts or regulated accounts. The Group also provides single retailer redemption products along with other goods and services.

The trusts operated by the Group are essential to the protection of customer monies. Two main trusts are operated, the Park Prepayment Protection Trust (PPPT) and the e-Money Trust. The PPPT is a voluntary trust which has operated for over 10 years in which the value of Christmas savers payments to date are ring-fenced in each year, which has independent trustees and bank accounts. Cash can be withdrawn from the trust when the product is dispatched to customers or if bought in from third party sources when the product is paid for. The e-Money trust is FCA regulated bank accounts, where cash is placed when value is loaded onto regulated products, and remains in trust until the redemption partner is paid, at which point the Group takes its service fee.

The key cash flow metrics tracked by the Group are billings, redemptions and costs as these allow for the forecasting of the Group's monthly cash position, which is a key factor in its going concern models and forecasts.

Liquidity is the main focus of the Group from a going concern perspective, as the timing of the Group's cash flows can lead to large swings in free cash from month to month. This is due to the timings of monies being moved in and out of the trusts, and the purchasing of third party, single retailer redemption products. Typically, July and August are low free cash months, as this is when the majority of purchasing takes place coupled with customer monies remaining in the trusts for protection. In the period leading up to the Christmas period a great number of products are released to the Group's customers, meaning free cash is released into the business, leading to high free cash balances around December. A key focus of the going concern assessments has been addressing the risk around the aforementioned low-free cash period around August and considering the actions that could be taken to avoid a negative free cash position at this point in time.

The financial statements are prepared on a going concern basis.

At the start of lockdown in March 2020, just like many businesses across the UK, the Group followed Government guidance and temporarily closed its distribution and warehouse facilities to help stop the spread of coronavirus. With no means to fulfil physical orders at that time the Group's focus shifted to digital products. In May 2020 the Valley Road facility reopened with social distancing procedures in place.

There has been a negative impact on trading for quarter one of the financial year ending 31 March 2021, with reductions in billings compared to the same period in the prior year of 45 per cent for corporate and 65 per cent for HSV, our website where we service both consumer and corporate customers. Redemptions have also significantly fallen, with an 80 per cent decrease for vouchers and 61 per cent decrease for cards and e-codes compared to quarter one of the prior year.

Despite this, as the year has progressed the month-on-month trend in billings has been encouraging, with significant improvement being shown in each successive month's results. Corporate and HSV billings for April 2020 were 35 per cent and 19 per cent respectively of April 2019 billings, whereas for June 2020 were 68 per cent and 54 per cent of the levels seen in June 2019.

The Group has taken action to conserve cash during this uncertain time and support its position as a going concern. These actions include the following:

- Furloughing employees – The Group has utilised the Government's Job Retention Scheme with a number of employees being furloughed, whose pay has been topped up to 100 per cent by the Group. In quarter one of the financial year ending 31 March 2021, there were an average of 65 employees on furlough per month, for a total saving of £243,000 in the quarter.
- Dividend cancellation – The Group decided to cancel the dividend payment for 2020, which has conserved £6m of cash.
- Deferral of VAT payments – The Group has deferred £936,000 of VAT payments between March and June 2020. These are now payable by 31 March 2021.
- Employee remuneration revisions – The decision was made to cancel all annual pay reviews, make no awards for FY2019/20 under the company wide annual bonus plan and to postpone the leadership team's share incentive awards for the year ended 31 March 2020.

In addition to the above actions that have already been taken, management have reviewed the cost base of the business in order to identify any further potential savings.

### Forecasting

Five scenarios have been modelled in order to assess the potential impact of the Covid-19 pandemic on the results of the Group going forward. The key variables that are altered between scenarios are: corporate and HSV demand, Christmas savers order book cancellations and reductions, and paper and card redemptions. The scenarios model the upcoming two year period, with specific focus on the twelve months from the signing of the annual report and accounts. The base case was approved by the Board. Management concluded that this base case reflected their best estimate of the likely impact of Covid-19, with initial trading slightly ahead, and this base case has also been used in the financing discussions with the banks.

## Directors' Report continued

### Base case scenario

The base case scenario, assumes decreases in corporate and HSV billings against the initial forecast of 60 per cent in quarter one of the year ending 31 March 2021, with a gradual recovery through the financial year to 25 per cent down in quarter four. In quarter one and two of the year ending 31 March 2022 (which goes just beyond the twelve month going concern window from signing of the accounts), growth of 40 per cent against the 2021 forecast is assumed. The reduction in Christmas savers in year one is 11 per cent.

The actual results for quarter one are slightly ahead of the base case, with overall corporate and HSV billings decreasing by 48 per cent compared to the 60 per cent assumed. In addition, July trading is ahead of forecast. This gives the Group confidence that the base case scenario is currently the best estimate and minimises the likelihood of any downside risks modelled within the other scenarios.

From a going concern perspective, the monthly forecasting of the Group's free cash balance in this scenario is the key area for consideration, as liquidity is the principal going concern risk. The base case, before usage of the RCF, shows a negative free cash balance in July 2021, recovering by September 2021.

### Downside scenario

In addition to the base case, management also considered the downside scenario that assumed decreases in corporate and HSV billings against the initial forecast of 75 per cent in quarter one of the year ending 31 March 2021, with a gradual recovery through the financial year to 25 per cent down in quarter four. In quarter one and two of the year ending 31 March 2022, growth of 40 per cent against the 2021 forecast is assumed. The reduction in Christmas savers in year one is 14 per cent. This forecast a negative free cash balance, before usage of the RCF, in June 2021.

### Further actions possible

Management has identified further actions which could be freely implemented in order to conserve cash. These actions do not include any staff redundancies other those being consulted on in respect of the closure of the fulfilment business.

These savings include:

- reduction in discretionary consultancy and IT costs;
- delaying the implementation of the new ERP system; and
- cancelling the bonus for the year ending 31 March 2021.

These were overlaid net of additional costs, including those associated with the closure of the fulfilment business.

The overall impact of these actions is to bolster the cash position of the Group, with the base case, before usage of the RCF, showing a small shortfall in August 2021.

### New financing

The Group has access to a recently agreed committed RCF of £15m, with an additional uncommitted accordion of £10m.

With the RCF in place, and having cancelled the final dividend payment, the directors consider that sufficient headroom exists to cover any negative sensitivities of COVID-19 in both the base case and downside scenario.

The following covenants are in place with regards to the RCF:

- Leverage/net debt cover – debt must not be greater than three times the last twelve months (LTM) rolling earnings before interest, taxation, depreciation and amortisation (EBITDA);
- Interest cover – LTM rolling EBITDA must not be less than four times the LTM rolling interest charge. This is expected to be approximately £50,000 per month, resulting in a LTM rolling interest charge of £0.6m, meaning LTM rolling EBITDA must not fall below £2.4m; and
- Christmas savers cash – requires that Christmas savers cash cannot be lower than monies in advance.

A LTM basis is used due to the seasonality of the Group's business. The leverage/net debt cover and interest cover covenants are assessed on a biannual basis starting in March 2021. The Christmas savers cash covenant is measured quarterly starting March 2021.

With the RCF in place, in line with the base case forecast, it is not envisaged that the Group will draw down on the facility until July 2021. The Group is forecast to be in full compliance with the three covenants throughout the twelve month period from the signing of the annual report and accounts, with sufficient headroom in place in both the base case and downside scenarios.

### Reverse Stress Tests

Several reverse stress tests have been completed. These allow management to assess their current financial resources and the likelihood that such a 'business-breaking' scenario would occur.

Reverse stress tests were run in respect of accelerated voucher redemption, reduced voucher billings and reduced Corporate and HSV billings (across vouchers, cards and codes). Each stress test brought forward the timing at which the RCF was required within the business. In each test, with the RCF in place and in some cases with further mitigating actions, each position could be managed, albeit the covenants currently agreed would be breached. However, management were satisfied that each reverse stress test was highly unlikely due to the extreme nature of the sensitivity required.

### Conclusion

The directors have carefully considered the base case, downside scenario, current trading and trends since the year end and the assessment of the reverse stress tests. In light of the newly agreed £15m RCF, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Directors continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.



### Employee involvement

Employees are kept informed of the performance and objectives of the Group through personal briefings, regular meetings and email.

### Market value of land and buildings

As at 31 March 2020, in the opinion of the directors, the market value and book value of the land and buildings of the Group are not significantly different.

### Political and charitable contributions

During the year ended 31 March 2020 the Group contributed to charity £20,000 (2019 – £35,000). These donations were made primarily to local charities supporting local communities. There were no political contributions.

### Financial instruments

The Company's financial risk management policies and objectives, including the exposure to market risk, credit risk and liquidity risk are set out in note 27 to the accounts.

### Creditor payment policy

For all trade creditors, it is the Group's policy to:

- agree the terms of payment at the start of business with that supplier;
- ensure that suppliers are aware of the terms of payment; and
- pay in accordance with its contractual and other legal obligations.

As at 31 March 2020 the number of days of parent Company purchases outstanding was 10 days (2019 – 17 days).

### Directors' liabilities

During the year the Company had in place appropriate insurance cover in favour of one or more directors of the Company, against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006.

### Business relationships with key stakeholders

See pages 30 to 31, our S172 statement, for details of business relationships with key stakeholders.

### Post balance sheet events

#### *Sale of Valley Road, Birkenhead*

In December 2018 the Group announced a new strategy that included relocating the head office from Birkenhead to Liverpool city centre to an office environment that allowed for more collaborative working and was better positioned to improve retention of staff and recruitment of new talent. In September 2019 the business successfully relocated the majority of staff to Liverpool, with some operational departments remaining in Birkenhead. At this point, the net asset value of the property situated in Birkenhead was transferred from property, plant and equipment to assets held for sale on the Group balance sheet. This property was owned by Budworth Properties Limited, a Group subsidiary. On 10 August 2020, Budworth Properties Limited was sold to HP (Valley Road) Limited for £3.2m and as part of the transaction the Group has leased back space for the small number of remaining operational staff. The balance sheet reflects the expected disposal of this asset, which is classified as an 'asset held for sale', following the previously announced impairment charge to the statement of profit or loss of £1.8m. The value of the disposal supports the recognised carrying value as at 31 March 2020, meaning no further impairment charge is necessary.

#### *Proposed closure of packing operations*

In July 2020, the Group announced to customers that it would not be supplying hampers and merchandise for 2020 due to health and safety concerns relating to the ability to pack these products within social distancing rules and the risk of receiving components due to shortages in stock or distribution problems following the impact of Covid-19. In August 2020, the Group announced to staff that it was commencing a period of consultation about the proposed closure of our packing business including hamper packing, third party packing and provision of storage. If this decision is confirmed, following a period of consultation with staff, it is expected that the operation of the packing business will cease by the end of 2020. As the company owning the land and buildings at Valley Road where the hamper packing business is based has been sold and a short term lease has been taken to allow for the wind down of the business, no charge is expected in the financial accounts for 2020/21. Following consultation with staff, if no suitable alternative employment can be found, any redundancy costs will be charged to the statement of profit or loss and treated as exceptional costs. The net cost of this, excluding any customer cancellations or margin erosion from switching to alternative products, is expected to be approximately £0.3m. Within the financial statements for the year ended 31 March 2020 we have already recognised a charge of £0.1m to write down the associated stock products held at year end to their net realisable value. This charge has been recognised as an exceptional charge in the period (see note 11). There are no other expected costs relating to this decision.

#### *Bank Financing*

We have completed a bank financing exercise, securing a 5 year revolving credit facility (RCF) with Santander of £15m plus an additional uncommitted accordion of £10m. This facility will provide the additional financial flexibility to protect against downside risk in the short term whilst enabling longer term growth, as well as investing in the continued switch to digital products. The RCF has 3 covenant requirements as detailed within the going concern section of the Accounting Policies on pages 71 to 73.

## Directors' Report continued

### Streamlined Energy and Carbon Reporting (SECR)

Our SECR disclosure presents our carbon footprint across Scopes 1, 2 and 3, along with an appropriate intensity metric and our total energy use of electricity and gas.

|  | Emissions<br>Scope | Global<br>tonnes CO <sub>2</sub> e | UK<br>tonnes CO <sub>2</sub> e |
|--|--------------------|------------------------------------|--------------------------------|
| Combustion of natural gas                                      | 1                  | 227                                | 227                            |
| Combustion of fuel in owned vehicles                           | 1                  | 2                                  | 2                              |
| Fugitive emissions   | 1                  | 3                                  | 3                              |
| Electricity consumed   | 2                  | 485                                | 485                            |
| <b>Scope 1 + 2</b>   |                    | <b>717</b>                         | <b>717</b>                     |
| Combustion of fuel in grey fleet vehicles                      | 3                  | 27                                 | 27                             |
| <b>Scope 1 + 2 + 3</b>   |                    | <b>744</b>                         | <b>744</b>                     |
| <b>Underlying energy (kWh)</b>                                 |                    | <b>3,255,336</b>                   | <b>3,255,336</b>               |
| <b>tonnes CO<sub>2</sub>e / £ m billings (Scope 1 + 2)</b>     |                    | <b>1.7</b>                         | <b>1.7</b>                     |
| <b>tonnes CO<sub>2</sub>e / £ m billings (Scope 1 + 2 + 3)</b> |                    | <b>1.8</b>                         | <b>1.8</b>                     |

Data based on 12 months up to 31 March 2020. This is the first year in which the Group has provided disclosure on its total energy consumption.

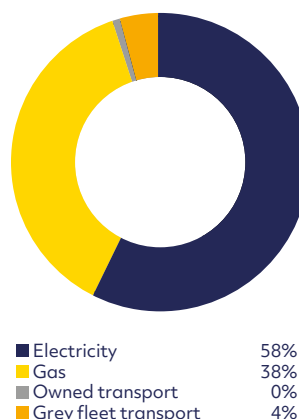
#### Energy efficiency measures taken over the year

During the financial year, the Group took a number of measures aimed for the purpose of energy efficiency:

- We moved our head office to a modern, EPC rating D building at Chapel Street, Liverpool which will help reduce the Company's energy usage in the long term;
- we installed solar control film in this office to improve its heat rejection to cut energy use for cooling and filter UV rays;
- LED lighting and lighting sensors were installed at Chapel Street; and
- planned for a monitoring and targeting system for implementation in 2020/2021.

The Group also introduced recyclable cups in Chapel Street to reduce waste, and invested in new technology to facilitate remote working for the majority of our colleagues which has enabled many of the workforce to carry on working from home throughout the pandemic. Home working will remain an important element of the way we work going forwards and should have a positive impact in helping to reduce our energy consumption.

### Energy Footprint



#### Methodology

A location-based calculation of CO<sub>2</sub> equivalent emissions was made using energy data collected from energy suppliers. Energy and carbon from transport were modelled using a UK average vehicle. Screening and mass balance methods were used to model the fugitive emissions from systems using refrigerants. Emissions factors used were 2019 Defra factors for the UK. Our intensity metric was calculated against our billings.

#### Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### Auditors

In accordance with section 489 of the Companies Act 2006, a resolution for the reappointment of Ernst & Young LLP as auditors of the Group is to be proposed at the forthcoming AGM.

By order of the Board.

**Tim Clancy**  
Chief Financial Officer  
12 August 2020

## Corporate Governance

### The Board

The Group is controlled through its Board of directors. The Board's main roles are:

- to provide entrepreneurial leadership of the Group;
- to set the Group's strategic objectives and to ensure that the necessary financial and human resources are in place to enable them to meet those objectives;
- to review management performance;
- to set the Company's standards and values; and
- to ensure that the Company's obligations to its shareholders and others are understood and met.

The Board, which meets at least five times a year, has a schedule of matters reserved for its approval. It meets on other occasions as necessary.

The Board has appropriate insurance cover in respect of legal action against its directors.

#### The specific responsibilities reserved to the Board include:



- setting Group strategy and approving an annual budget and medium-term projections
- developing and implementing risk management systems



- overseeing the implementation of the agreed strategies and policies of the Group
- ensuring that appropriate management development and succession plans are in place
- ensuring a satisfactory dialogue takes place with shareholders

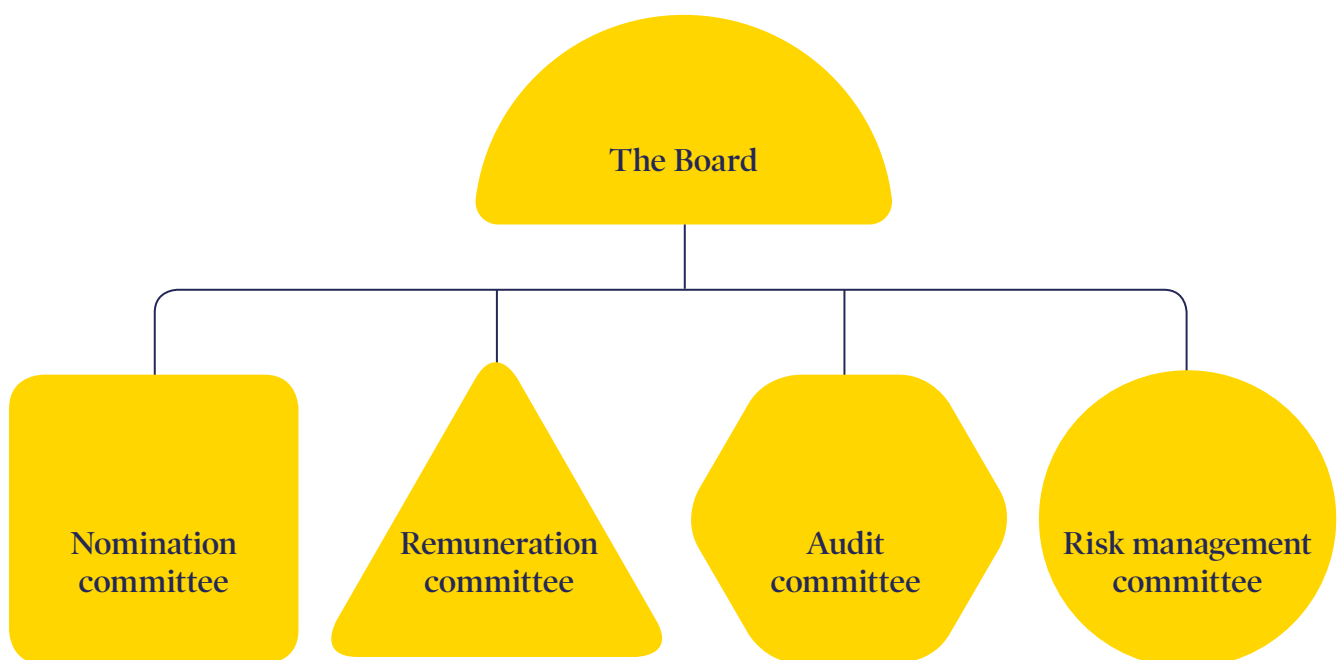


- monitoring the liquidity risk of the business and the going concern basis of preparation
- reviewing operational and financial performance
- reviewing the Group's systems of financial control and risk management
- reviewing the environmental, health and safety performance of the Group



- approving entering into financing arrangements
- approving major acquisitions, divestments and capital expenditure
- approving appointments to the Board and the Company Secretary
- approving policies relating to directors' remuneration and the severance of directors' contracts

### Committees of the Board



For further information see page 46

For further information see pages 46

For further information see pages 47-48

For further information see page 48

## Corporate Governance continued

### Nomination committee

Members

04

Meetings

01

During the year the nomination committee comprised Laura Carstensen (Chairman), Michael de Kare-Silver who was replaced by Sally Cabrini on 25 September, John Gittins and Ian O'Doherty.

The nomination committee's terms of reference are available from the Company Secretary and are displayed on the Group's website.

The nomination committee meets if a vacancy arises or need is identified to alter the mix of skills and experience on the Board and to review succession planning.

The nomination committee's policy on diversity is encapsulated by the values set out in the Company's policy on equality and diversity.

# Nom

### Remuneration committee

Members

03

Meetings

04

During the year the remuneration committee comprised Michael de Kare-Silver (Chairman) who was replaced by Sally Cabrini (also as Chairman) on 25 September, Laura Carstensen and John Gittins. The remuneration committee met formally four times during the year.

#### The remuneration committee's principal responsibilities are:



- setting, reviewing and approving individual remuneration packages for executive directors and the Chairman including terms and conditions of employment and any changes to the packages
- recommend and monitor the level and structure of remuneration for senior management



- approving the rules, and launch, of any Group share, share option or cash based incentive scheme



- the grant, award, allocation or issue of shares, share options or payments under such scheme

In addition the remuneration committee periodically reviews the Group's remuneration policy in relation to:

- its competitors and industry norms;
- compensation commitment; and
- contract periods.

The remuneration for the non-executive directors is determined by the executive directors.

The remuneration committee's terms of reference are available from the Company Secretary and are displayed on the Group's website. The directors' Remuneration Report is set out on pages 51 to 53 of the annual report.

# Rem





## Audit committee

Members

03

Meetings

05

# Audit

During the year the audit committee comprised our non-executive directors. These were John Gittins (Chairman), Laura Carstensen and Michael de Kare-Silver who was replaced by Sally Cabrini on 25 September. John Gittins is a qualified Chartered Accountant and all committee members have significant, senior experience within PLC environments. Ian O'Doherty, Tim Clancy and the Group's internal and external auditors attend meetings of the audit committee by invitation.

The audit committee met five times during the year.

The audit committee usually reviews its terms of reference annually and recommends to the Board any changes required as a result of the review.

The audit committee's terms of reference are available from the Company Secretary and are displayed on the Group's website.

### In the financial year to 31 March 2020 the audit committee discharged its responsibilities by:



- reviewing the Group's draft financial statements and interim results statement prior to Board approval and reviewing the external auditors' detailed reports thereon;
- reviewing the appropriateness of the Group's accounting policies;
- reviewing regularly the potential impact in the Group's financial statements of certain matters;
- reviewing and approving the audit fee and reviewing non-audit fees payable to the Group's external auditors;
- reviewing the external auditors' plan for the audit of the Group's accounts, which included key areas of audit focus, key risks on the accounts, confirmations of auditor independence and the proposed audit fee and approving the terms of engagement for the audit;
- reviewing the plan for internal audit work, and reviewing the reports arising from this work; and
- reviewing risk and compliance processes, including a review at each meeting of principal risks and key mitigating controls, which informs the scope of internal audit work.

The audit committee, at least annually, meets the external auditors, without management, to discuss matters relating to its remit and any issues arising from the audit.

Under its terms of reference, the audit committee monitors the integrity of the Group's financial statements and any formal announcements relating to the Group's financial performance, reviewing any significant financial reporting judgements contained in them. It reviews accounting papers prepared by management which provide details on some of the main financial reporting judgements, as well as reports by the external auditors on key areas of focus for the half year and full year reports. During the year the audit committee reviewed key judgements relating to:

#### **Revenue recognition**

The Group's revenue recognition policy, as described on pages 74 to 77, requires estimation of provisions for unredeemed vouchers and cards. Management use historical data over a number of years, as well as current trends, to prepare these estimates. The committee was satisfied that the methodology used was consistent with previous years and remains appropriate.

#### **Impairment of goodwill, property, plant and equipment and assets held for sale**

The Group's goodwill, property, plant and equipment and assets held for sale are material balances. Annual impairment reviews are performed which use key judgements, including estimates of future business performance and discount rates. As a result of current market conditions and uncertainty arising from COVID-19, these reviews have given rise to impairment charges totaling £3.1m, relating to land and buildings at Valley Road, FMI, the Group's brand engagement agency and Family Hampers. The committee is satisfied with the key assumptions used by management and the resulting impairment charge.

#### **Accounting for leases**

During the year the Group implemented IFRS 16, which resulted in the recognition of a significant asset and liability on the balance sheet. The committee considered the key assumptions relating to lease terms and incremental borrowing rate applied by management and were comfortable with the conclusions.

#### **Going concern**

The committee has reviewed the going concern assessment prepared by management, covering a range of potential financial forecast scenarios relating to the impact of COVID-19 on the business. The assessment focuses on the ability of the Group to operate within the financial resources and covenants provided by its newly announced banking facility. Under the base case and downside scenarios considered, the facility and headroom were considered sufficient and covenant compliance demonstrated.

Further details of the going concern review are given on pages 71 to 73.

## Corporate Governance continued

The audit committee is responsible for monitoring the external auditor's independence and objectivity, the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, reappointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Group and the external auditors is maintained, including reviewing non-audit services and fees. EY have been the Company's external auditor for eight years and the committee remains satisfied with their effectiveness and independence. The committee has adopted a policy of tendering external audit services at least once every ten years.

The audit committee reviews arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters referred to as 'Whistle-blowing'. The audit committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

The audit committee monitors regularly the non-audit services being provided to the Group by its external auditors in line with its policy on non-audit work performed by the auditors. The policy prohibits the external auditors from undertaking certain work and provides that other categories of non-audit work must be submitted to the audit committee for approval prior to engagement.

The audit committee keeps under informal review the need for the Group to have an internal audit function. Due to the size and scope of the business the audit committee has recommended to the Board that it does not currently consider it appropriate for the Group to have an internal audit function.

Over the year the management team continued to utilise BDO LLP to carry out internal audit reviews to examine areas of management and control risks. These reviews are part of an ongoing programme of internal audit work. The committee monitors the effectiveness and independence of BDO LLP in conducting this work and is satisfied with their performance. The Board continues to keep under review the need for a more formally constituted internal audit programme.

Risk management  
committee

Meetings

12

During the year the risk management committee comprised members of the senior leadership team. The risk management committee meets on a monthly basis during the year.

**The risk management committee's terms of reference include:**

-  • identification of business risk throughout the Group's operations
-  • determination of the controls necessary to manage identified risk
- evaluation of the effectiveness of those controls
- continuous assessment and reporting to the Board

The audit committee considers any matters in relation to the principal risks, as determined by the risk management committee.

Risk

The following table sets out the number of scheduled meetings of the Board and its committees during the year and individual attendance by Board members at these meetings. Attendance at the meetings by non-member directors is not shown:

|                                | Group Board | Audit committee | Remuneration committee | Nomination committee |
|--------------------------------|-------------|-----------------|------------------------|----------------------|
| <b>Executive directors</b>     |             |                 |                        |                      |
| Ian O'Doherty                  | 9           |                 |                        |                      |
| Tim Clancy                     | 9           |                 |                        |                      |
| <b>Non-executive directors</b> |             |                 |                        |                      |
| Laura Carstensen (Chairman)    | 9           | 5               | 4                      | 1                    |
| John Gittins                   | 9           | 5               | 4                      | 1                    |
| Michael de Kare-Silver         | 5           | 2               | 2                      | –                    |
| Sally Cabrini                  | 4           | 3               | 2                      | 1                    |
| <b>Scheduled meetings</b>      | <b>9</b>    | <b>5</b>        | <b>4</b>               | <b>1</b>             |

### Senior Independent Director

The Board appointed John Gittins as Senior Independent Director on 25 September 2019. He is always available to meet shareholders on request and to ensure that the Board is aware of any shareholder concerns not resolved through the existing mechanisms for investor communication.

### Directors and directors' independence

The Board currently comprises of the independent Non-Executive Chairman, two independent non-executive directors and two executive directors. The names of the directors, together with their biographical details, are set out on pages 38 and 39.

The Board includes independent non-executive directors who constructively challenge and help develop proposals on strategy and bring independent judgement, knowledge and experience to the Board's deliberations. The independent directors are of sufficient calibre and number that their views carry significant weight in the Board's decision making. The Board considers its non-executive directors to be independent in character and judgement.

The independent Non-Executive Chairman and the independent non-executive directors have confirmed that, except for as noted below, none of them:

- has been an employee of the Company or Group within the last five years;
- has, or has had within the last three years, a material business relationship with the Group apart from a director's fee, participates in the Company's share option or performance related pay scheme or is a member of the Group's pension scheme, except as noted below;
- has close family ties with any of the Group's advisers, directors or senior employees;
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies, other than those disclosed in the directors' biographical details on pages 38 and 39;
- represents a significant shareholder; or
- has served on the Board for more than nine years.

The directors are given access to independent professional advice at the Group's expense, when the directors deem it is necessary in order for them to carry out their responsibilities.

### Professional development

On appointment, directors take part in an induction programme when they receive information about the structure and practices of the Group together with the Group's latest financial information. This is supplemented by meetings with key senior executives and advisers. Throughout their period in office the directors are continually updated on the Group's business, the competitive and regulatory environments in which it operates and other changes affecting the Group and the industry it operates in as a whole, by written briefings, meetings with senior executives and attendance at external courses.

### Performance evaluation

There is a formal process for the annual evaluation of the Board. Areas covered are; leadership, Board reports, effectiveness, accountability, remuneration, relations with shareholders and Board committees. The remuneration committee considers individual director's performance when it determines their forthcoming annual remuneration. Directors' performance is under continual review and is measured against targets. The non-executive directors are subject to evaluation. The Board considers its arrangements for evaluation or appraisal are adequate to ensure effective governance given the size of the Company and its Board.

### Re-election

Subject to the Company's articles of association, the Companies Acts and satisfactory performance, non-executive directors are appointed for an initial period of three years. Before the third and sixth anniversary of the non-executive director's first appointment, the director discusses with the Board whether it is appropriate for a further three year term to be served.

The Company's articles of association require that any director who was not elected or re-elected at either of the two preceding AGMs will retire from office and be eligible for re-election.

### Company Secretary

The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. The directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring Board procedures are complied with. The Company's articles of association provide that the appointment and removal of the Company Secretary is a matter for the full Board.

### Information

Regular reports and papers are circulated to the directors in a timely manner in preparation for Board and committee meetings. These papers are supplemented by information specifically requested by the directors from time to time. All executive directors receive monthly management accounts and regular management reports and information which enable them to scrutinise the Group's and management's performance against agreed objectives. The Board periodically invites executives to present on specific topics to allow the Board to take a more in-depth view. The Board believes that our culture is consistent with our strategic pillars of clarity, experience, productivity and appeal and an employee survey was carried out to aid that evaluation.

### Relations with shareholders

The Chairman gives feedback to the Board on issues raised by major shareholders.

The AGM is attended by all directors, and shareholders are invited to ask questions during the meeting and to meet with directors after the formal proceedings have ended.

The Group maintains a corporate website containing a wide range of information of interest to investors.

Presentations are made to analysts and institutional investors following announcements to the stock exchange of the half-year and full-year results. Other ad hoc meetings are held with interested parties on request.

## Corporate Governance continued

### Risk and internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. These may be strategic, operational, reputational, financial or environmental. The process is reviewed regularly by the Board. The directors have continued to review the effectiveness of the Group's system of financial, operational and compliance controls against significant risk.

The principal elements of the Group's established control systems include:

- a clearly defined organisational structure under which individual responsibilities are monitored by members of the Board;
- budgets covering key financial aspects of Group activities which are approved by the Board;
- monthly comparisons of results against budget and prior year which are considered by the Board;
- clearly defined procedures for treasury management and the authorisation of capital expenditure;
- an ongoing programme of internal audit work performed by BDO LLP; and
- the appointment of a risk management sub-committee.

The risk management sub-committee's terms of reference are shown on page 48.

A risk management system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

This process has been in place for the year under review and up to the date of approval of the annual report and accounts.

### Statement of directors' responsibilities in respect of the annual report and the financial statements

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

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

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

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

The directors have decided to prepare voluntarily a directors' Remuneration Report, adopting some of the best practice provisions in connection with preparation of such reports.

The directors have decided to adopt the Quoted Companies Alliance Corporate Governance Code.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors believe that due to the nature of our business 'slavery' is unlikely to be an issue for our suppliers. All goods are sourced from reputable suppliers in the UK and any supplier of services is subject to a due diligence process. Nevertheless we are, as part of an ongoing process, amending our standard supplier agreements to insist upon compliance with the Modern Slavery Act 2015 (or its EU equivalent). As a Group we believe we are in compliance with this Act.

By order of the Board

**L Carstensen**  
Chairman  
12 August 2020



## Remuneration Report

This report sets out details of remuneration for the directors of Appreciate Group plc during the year ended 31 March 2020. As a Company listed on AIM, the Company is not required by the Companies Act 2006 to prepare a Directors' Remuneration Report. The Board has, however, voluntarily adopted many of the best practice provisions in connection with the preparation of such reports and these are referred to in the report below.

### Unaudited information

#### Remuneration committee

Details of the members of the remuneration committee are given on page 46.

In undertaking its responsibilities the committee seeks independent external advice as necessary. The principal external advisers to the committee are PricewaterhouseCoopers LLP.

#### Executive remuneration policy

The aim of the Group's remuneration policy is to adopt levels of remuneration which should be sufficient to attract, motivate and retain high calibre executives. The policy is to reward directors with competitive salaries and benefit packages which are linked to both individual and business performance. These packages are reviewed each year to ensure that they are supportive of the Group's business objectives and the creation of shareholder value.

#### Details of remuneration

Executive directors are remunerated through the provision of a basic salary, annual bonus (linked to performance), long term incentives (Strategic Growth Plan – linked to performance), car allowance, medical, group income protection, life insurance and permanent health insurance cover. Certain executive directors enjoy benefits in kind such as contributions to pension arrangements and the payment of certain professional subscriptions.

#### COVID-19 update

As announced in our year end trading update, we remain focused on reducing costs where possible and delaying any discretionary spend or capital projects. As previously announced, we decided to cancel the interim dividend payable in April 2020, conserving £2m of cash, and subsequently the Board have also decided it would not be prudent to recommend a dividend for this financial year.

The actions that the remuneration committee and Company are taking as a result include:

- Cancellation of all annual pay reviews across the business, including for executive directors. Therefore, salaries will be unchanged for the year commencing 1 April 2020 as a result of the annual review.
- The cross functional annual bonus scheme for the performance year 2019/2020 has not been paid and any other more limited bonus schemes will be reviewed to ensure alignment with performance.

#### Basic salaries

Basic salaries for executive directors are reviewed by the remuneration committee each year. No changes were made to basic salaries during the year ended 31 March 2020.

#### Short-term performance related payments

Executive directors can earn performance related cash bonus payments, subject to the achievement of predetermined business objectives and Group profit targets over one financial year. A portion of bonus payments for executive directors are subject to deferral under the scheme rules. Bonuses do not form part of pensionable earnings.

Based on performance to 31 March 2020, the remuneration committee determined that bonuses would not be paid to Ian O'Doherty and Tim Clancy as the Company's performance fell short of the Group profit target.

#### Long-term incentives

The current executive directors participate in the Group's SGP and SAYE full details of which are shown in note 22b.

#### Strategic Growth Plan (SGP) awards

SGP awards are equity settled awards in the form of nil-cost options. These were granted to executive directors on 21 December 2018 and have a five year performance period from 1 October 2018 to 30 September 2023.

The SGP provides participants with a pool of shares with a value equal to 10 per cent of any cumulative shareholder value created above a compound hurdle rate of 10 per cent per annum. This value is based on the growth in market capitalisation plus dividends over the five year period.

The awards for the executive directors were:

- **CEO** – 45 per cent share of the pool;
- **CFO** – 25 per cent share of the pool.

The remaining 30 per cent of the pool will be allocated to other senior managers in the Company.

The remuneration committee has put in place the SGP to align pay outcomes with tangible increased shareholder value:

- **Alignment** – The SGP results in stronger alignment between executive directors and shareholders, as the participants share more directly in the growth of the Company, albeit only for meeting stretching targets.
- **Retention and incentivisation** – Our executive directors and management team are proven experts and are key to the next phase of the Company's growth strategy. The SGP is judged to be the best way to focus management on tangible value creation over the long term and lock in the talent within the senior management team.
- **Simplicity** – The SGP is very simple and transparent. The remuneration committee believes that the achievement of high levels of growth in shareholder value over a five year period is a straightforward and stretching target.
- **Long term** – A five year performance period has been selected to ensure performance is sustained. It is also in line with prevailing investor attitudes towards longer performance periods to ensure maximum alignment with investor value. Unlike other similar plans that measure performance and create a pool of shares on an annual basis, the SGP has a single measurement point at the end of the five year performance period and is therefore genuinely long term.
- **Performance measurement** – The Company's share price is the best indicator of how the market values the efficiency with which the management team uses the available capital, so it implicitly recognises only those activities that are value-enhancing.
- **Bespoke** – We have moved away from a standard performance share plan structure for executives as we believe the SGP is more aligned with our growth strategy.

## Remuneration Report continued

The remuneration committee has put in place a number of features to protect shareholders and to prevent excessive or unfair payouts under the SGP:

- An overall cap on the maximum number of shares that can be granted under the SGP is set at 5 per cent of the outstanding share capital at grant to prevent excessive payouts or dilution. This sits outside of the current share plan limits and therefore is in addition to the current 10 per cent limit that applies for LTIP and SAYE awards (LTIP awards being granted to below Board individuals only).
- The committee has discretion to adjust the value of the award at the end of the performance period, for example to prevent perverse outcomes (either excessive or punitive) which are as a result of factors outside of participants' control, including (but not limited to) a change of control or other merger and acquisition activity.
- Malus and clawback provisions are in place that give the remuneration committee the ability to reduce the vesting outcome (potentially to nil) or recover awards made for the period of 2 years post vesting. The events that would give rise to the application of these provisions are discovery of material misstatement in the accounts or participant misbehaviour, fraud or misconduct.
- A 30 day averaging period applies at the end of the performance period, which ensures that a "spike" on the last day of the performance period does not lead to a short term result that does not reflect the underlying business value.

The annual LTIP award for the CEO and CFO has been replaced with this one-off SGP award. Regular LTIP awards will not be made to executive directors during the term of the SGP.

### Contracts

Details of executive directors' service contracts are given on pages 38 and 39. No contract provides for compensation payments on loss of office.

### Non-executive directors

The independent non-executive directors receive fees as directors which are determined by the Board, each director abstaining from decisions affecting their own remuneration.

### Total shareholder return (TSR)

The following graph charts the total cumulative shareholder return of the Company since 1 April 2015, compared with the AIM All-Share Index and the FTSE All-Share Financials Index. The Company feels that these are the most appropriate indices to use as the first shows a broad average equity share performance and the second shows the share performance for the industry sector in which the Company operates.



## Audited information

### Directors' emoluments

The emoluments of directors for the year ended 31 March 2020 were:

|                               | Salary or fees<br>£'000 | Performance related payments<br>£'000 | Benefits<br>£'000 | Total         |               | Pension costs |               |
|-------------------------------|-------------------------|---------------------------------------|-------------------|---------------|---------------|---------------|---------------|
|                               |                         |                                       |                   | 2020<br>£'000 | 2019<br>£'000 | 2020<br>£'000 | 2019<br>£'000 |
| <b>Executive</b>              |                         |                                       |                   |               |               |               |               |
| I O'Doherty                   | 325                     | –                                     | 65                | 390           | 520           | –             | –             |
| T Clancy <sup>1</sup>         | 240                     | –                                     | 52                | 292           | 227           | –             | –             |
| M R Stewart <sup>2</sup>      | –                       | –                                     | –                 | –             | 109           | –             | –             |
|                               | 565                     | –                                     | 117               | 682           | 856           | –             | –             |
| <b>Non-executive</b>          |                         |                                       |                   |               |               |               |               |
| L Carstensen                  | 73                      | –                                     | –                 | 73            | 73            | –             | –             |
| M de Kare-Silver <sup>3</sup> | 22                      | –                                     | –                 | 22            | 45            | –             | –             |
| J Gittins                     | 42                      | –                                     | –                 | 42            | 42            | –             | –             |
| S. Cabrini <sup>4</sup>       | 21                      | –                                     | –                 | 21            | –             | –             | –             |
|                               | 158                     | –                                     | –                 | 158           | 160           | –             | –             |
|                               | 723                     | –                                     | 117               | 840           | 1,016         | –             | –             |

1. Tim Clancy was appointed as a director of Appreciate Group plc on 28 August 2018. The prior year figures represent remuneration from that date.
2. Martin Stewart resigned as a director of Appreciate Group plc on 4 August 2018. The prior year figures represent remuneration up to that date.
3. Michael de Kare-Silver resigned as a director of Appreciate Group plc on 24 September 2019.
4. Sally Cabrini was appointed as a director of Appreciate Group plc on 25 September 2019.

### Directors' share interests

The beneficial interests in the share capital of the Company of the directors in office at 31 March 2020 and connected persons were as follows:

|              | Beneficial shareholding |               |
|--------------|-------------------------|---------------|
|              | 31 March 2020           | 31 March 2019 |
| I O'Doherty  | 30,000                  | –             |
| T Clancy     | 20,000                  | –             |
| J Gittins    | 20,000                  | 10,000        |
| L Carstensen | 70,000                  | 35,000        |
| S Cabrini    | –                       | –             |

### Directors' share options

The individual interests of the executive directors under the SAYE is as follows:

|             | SAYE – options over ordinary shares |                |                  |             |
|-------------|-------------------------------------|----------------|------------------|-------------|
|             | 31 March 2020                       | Exercise price | Date exercisable | Expiry date |
| I O'Doherty | 26,745                              | 67.3p          | 01.09.21         | 01.03.22    |

In addition, the executive directors have the following interests in the SGP:

|             | SGP – share of pool    |                           |
|-------------|------------------------|---------------------------|
|             | Share at 31 March 2020 | End of performance period |
| I O'Doherty | 45 per cent            | 30.09.23                  |
| T Clancy    | 25 per cent            | 30.09.23                  |

By order of the Board

### S Cabrini

Chairman of the Remuneration Committee  
12 August 2020

## Independent Auditor's Report to the Members of Appreciate Group plc

### Opinion

In our opinion:

- Appreciate Group plc's Group financial statements and parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Appreciate Group plc which comprise:

| Group   | Parent Company  |
|---|---|
| Consolidated Statement Financial Position as at 31 March 2020   | Company Statement of Financial Position as at 31 March 2020   |
| Consolidated Statement of Profit or Loss for the year then ended  | Company Statement of Changes in Equity for the year then ended  |
| Consolidated Statement of Comprehensive Income for the year then ended  | Company Statement of Cash Flows for the year then ended   |
| Consolidated Statement of Changes in Equity for the year then ended   | The Accounting Policies and related notes 1 to 28 to the financial statements, including a summary of significant accounting policies |
| Consolidated Statement of Cash Flows for the year then ended  |   |
| The Accounting Policies and related notes 1 to 28 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards to the parent Company financial statements, as applied in accordance with the provisions 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 below. We are independent of the Group and parent 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 as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

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

- 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 Group's or the parent 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.

### Overview of our audit approach

|                   |  |
|-------------------|--|
| Key audit matters | <ul style="list-style-type: none"> <li>• Going concern</li> <li>• Revenue recognition – occurrence of revenue during the last six months of the year</li> <li>• Completeness of provisions for redemption of vouchers and corporate gifted cards, including measurement of income resulting from estimates of breakage</li> <li>• Assumptions used in determining the pension liability valuation</li> <li>• Classification and valuation of assets held for sale</li> </ul> |
| Audit scope       | <ul style="list-style-type: none"> <li>• We performed an audit of the complete financial information of six components and audit procedures on specific balances for a further two components</li> <li>• The components where we performed full or specific audit procedures accounted for 100 per cent of Profit before tax, 100 per cent of Revenue and 100 per cent of Total assets</li> </ul>  |
| Materiality       | <ul style="list-style-type: none"> <li>• Overall group materiality of £541,000 which represents 5 per cent of profit before tax and impairment of property, plant and equipment, assets held for sale and goodwill</li> </ul>  |



## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

| Risk   | Our response to the risk  | Key observations communicated to the Audit Committee   |
|--|---|--|
| <p><b>Going concern</b><br/>Refer to Message from the Chair (page 10), Chief Executive's Review (pages 12 to 14), Financial review (page 18), Risk Factors (pages 32 to 34), Directors' Report (pages 41 to 43), Audit Committee Report (page 47), the Accounting Policies (pages 71 to 73) and Note 28 of the financial statements.</p> <p>Uncertainties arise from the recent COVID-19 outbreak and their impact on the Group's ability to continue as a going concern. Details are given within the Accounting Policies.</p> <p>Given the unprecedented impact of COVID-19 on all businesses and the macro-economic environment, accurate forecasting of prospective financial information and the development of credible future scenarios is challenging and may have a wide range of potential impacts on the Group's ability to continue as a going concern. For Appreciate Group plc the two key uncertainties are:</p> <ul style="list-style-type: none"> <li>• not having sufficient cash to meet their liabilities as they fall due; and</li> <li>• breaching any one of the three covenants under the new RCF facility (see Accounting Policy on Going Concern for details) which, without intervention, would lead to immediate requirement to repay any outstanding balance.</li> </ul> <p>Management have revised their forecasts to reflect the impact of Covid-19, which serves as the base case for the going concern assessment. Further downside scenarios have been run based on the principal risks and uncertainties facing the Group and their potential impact on billings, redemption and cashflows, as well as reverse stress testing to identify scenarios under which the group does not have sufficient liquidity.</p> <p>The results of this analysis have been compared to the available liquidity, including the £15m RCF, and financial covenant compliance, during the going concern period to 31 August 2021. Based upon this assessment management consider the going concern assumption remains appropriate.</p> | <p>We have identified and walked through the process followed by management to prepare the revised forecasts.</p> <p>The audit engagement partner increased her time directing and supervising the audit procedures on going concern and understanding the latest position with respect to funding arrangements.</p> <p>Our work focussed on the Board approved base case, which was also submitted to the bank as part of the funding discussion.</p> <p>We checked the arithmetical accuracy of management's model.</p> <p>We have assessed the reasonableness of the key assumptions used in the base case, namely billings, redemption rates and costs. This has been performed by:</p> <ul style="list-style-type: none"> <li>• assessing the historical forecasting accuracy of the Group by comparing actual billings, costs and cash to those originally forecast for the previous two accounting periods;</li> <li>• considering the reduction in forecast billings within management's base case to our own independent assessment considering the Group's Corporate customer sector base for those industries most affected by the impact of COVID-19;</li> <li>• considering the redemption pattern in the post year end period and in prior years to those assumed by management in the base case;</li> <li>• comparing the costs assumed within the base case to current year actuals; and</li> <li>• comparing current trading performance to management's base case by obtaining the latest available management accounts as at 30 June 2020 and billing information to 31 July 2020 to identify any issues with current trading and cashflows and to assess the reasonableness of assumptions.</li> </ul> <p>We verified the cash starting position and challenged management on the free cash variance between base case and actual during the post year end period.</p> <p>We compared management's model to the model presented to the banks for consistency.</p> | <p>We reported to the Audit Committee that, based on testing performed, we concur with management that the going concern assumption adopted in the 2020 financial statements is appropriate.</p> <p>We reviewed management's disclosure within the going concern section of the Accounting Policies and Note 28 and considered that they appropriately describe the risks associated with Group's ability to continue to operate as a going concern.</p> |

## Independent Auditor's Report to the Members of Appreciate Group plc continued

| Risk   | Our response to the risk  | Key observations communicated to the Audit Committee |
|--|---|--|
| <p>There is a risk that the forecasts do not accurately reflect the future billings and redemptions profiles, leading to inaccurate forecasting and the going concern principle not being appropriate.</p> | <p>We confirmed the availability of the RCF by comparing to the underlying agreement.</p> <p>We reformed management's forecast covenant compliance calculations to check for breaches of each covenant throughout the going concern period under the base case.</p> <p>We also considered the results of the reverse stress tests performed by management, and their downside case, to determine the impact of reasonably possibly fluctuations in key assumptions on the Group's available liquidity and covenant calculations.</p> <p>We considered the mitigating actions identified by management that had not been factored into the model, including cost reductions, and the feasibility of management being able to execute such mitigating actions.</p> <p>We reviewed the appropriateness of management's going concern disclosure in describing the risks associated with its ability to continue to operate as a going concern for a period of at least 12 months from the date of approval of the financial statements.</p> <p>We checked across other areas of our audit, such as management's impairment assessment for goodwill and intangible assets, confirming that the base forecasts were consistent with those audited as part of the going concern assessment.</p> |  |

| Risk  | Our response to the risk  | Key observations communicated to the Audit Committee  |
|---|---|---|
| <p><b>Revenue recognition – occurrence of revenue during the last six months of the year £113m (2019: £110m)</b></p>  | <p>We understood and assessed the design of key management controls around the revenue recognition process. We did not seek to obtain reliance on the control framework.</p>  | <p>Based on the procedures performed we did not identify evidence of material misstatement in the revenue recognised in the year.</p> |
| <p>Refer to the Accounting policies (pages 74 to 77 and pages 84 and 85); and Note 1 of the Consolidated Financial Statements (pages 87 to 88)</p>  | <p>We filtered using key criteria to identify, and then test, higher risk manual journals to revenue in the last six months of the year.</p>  |   |
| <p>With the seasonal nature of the Group's business, three-quarters of the Group's revenue is earned during the second half of the year. As a result, we have identified a significant risk over the manipulation of revenue in the second half of the year. Most transactions are small in value and so we focus on the manipulation of revenue through the override of management controls. This is most likely to be achieved through topside manual journals used to record fictitious revenue.</p> | <p>We tested journals recorded as part of the year-end financial statement close process to supporting documentation to understand their purpose and confirm their validity. We performed a comparison of such journals to those recorded in the previous year to identify new or non-recurring journals that might have been recorded by Group management.</p> |   |
| <p>Revenue includes breakage in respect of vouchers and corporate gifted cards. Our risk in respect of this element of revenue is described below.</p>  | <p>We extended our cut-off testing period to one month prior to the year-end and tested a sample of recorded transactions to evidence of despatch.</p>  |   |
| <p>This risk is unchanged from the previous year.</p>   | <p>We performed a reconciliation between the value of sales orders received for Christmas 2019 and the revenue reported within the Consumer segment. We performed substantive audit procedures in respect of revenues recorded after December 2019 by which time we expected all revenues related to Christmas 2019 to have been recognised.</p>                |   |
|   | <p>We tested a sample of transactions from throughout the year to invoice and evidence of despatch or payment.</p>  |   |
|   | <p>We tested the service fee recognised as revenue in respect of vouchers and corporate gifted cards. We did this by predicting service fee income using contracted rates and redemption volumes and comparing this to the amounts recorded.</p>  |   |
|   | <p>We analysed gross margin for the Corporate segment on a daily basis in March 2020 to identify days in which the margin was higher than expected; we investigated whether the margin was as a result of routine sales transactions or whether there were unexpected transactions or adjustments.</p>  |   |
|   | <p>Revenue includes breakage in respect of vouchers and corporate gifted cards. Our procedures in respect of this element of revenue is described below.</p>  |   |

## Independent Auditor's Report to the Members of Appreciate Group plc continued

| Risk  | Our response to the risk  | Key observations communicated to the Audit Committee  |
|---|---|---|
| <p><b>Completeness of provisions for redemption of vouchers and corporate gifted cards £54m (2019: £58m) including measurement of income resulting from estimates of breakage.</b></p> <p>Refer to the Accounting policies (pages 74 to 77, 80, 84 and 85); and Notes 17 and 18 of the Consolidated Financial Statements (pages 103 and 104)</p> <p>The Group records a provision in respect of unredeemed vouchers and corporate gifted cards for the anticipated amounts payable to retailers on redemption.</p> <p>The estimated value of vouchers and corporate gifted cards not expected to be redeemed is calculated at the year-end based on historical data regarding patterns of redemption and expiry. Movements in the provision are recognised in the Consolidated statement of profit or loss ('breakage') in proportion to the redemption patterns experienced on vouchers and cards, with deferred elements held within Deferred Income.</p> <p>We focused on this area due to the significance of the carrying values of the provisions being assessed and the sensitivity of these balances to changes in the estimated rates of breakage which could lead to manipulation by management</p> <p>This risk is unchanged from the previous year.</p> | <p>We understood and assessed the design of key controls relating to the completeness of the provisions for vouchers and corporate gifted cards and the measurement of non-redemption income ('breakage').</p> <p>We tested and relied upon the operation of controls relating to the processing of card transactions. We did not seek to rely on controls relating to voucher transactions.</p> <p>We compared the card provision to the total obligation reported by the Group's and third party applications and investigated any large reconciling items.</p> <p>We obtained from management a reconciliation of the movement in the gross provision for unredeemed vouchers (before adjustments for service fees, breakage and discounting) to the value of vouchers dispatched in the period and the amounts that were redeemed. We tested the value of vouchers despatched and redeemed by agreeing a sample of these transactions to sales invoices and customer payments and to retailer settlements respectively.</p> <p>We assessed the estimates regarding the service fees that will be deducted from the payments to retailers on redemption by testing the assumed service fee rates for the largest retailers to signed contracts. We compared the participation by retailers in 2020 to the prior year and evaluated whether any significant changes had been appropriately reflected in the measurement of the voucher and card provisions and liability.</p> <p>We tested for manual journal entries recorded against the provision for unredeemed vouchers and corporate gifted cards, investigating any that looked unusual.</p> <p>We performed cut-off procedures to ensure that vouchers and cards related to sales orders processed by the entity's IT application one day before and one day after the year-end were included in the provision as appropriate.</p> <p>We tested a sample of sales orders processed in March 2020 to ensure that the vouchers or cards were recorded in the liability at year-end.</p> <p>We re-performed the calculation of vouchers and cards that will not be redeemed to ensure that it had been computed accurately when applying management's assumptions.</p> | <p>Based on the procedures performed, we concluded that:</p> <ul style="list-style-type: none"> <li>the provision for the redemption of vouchers and corporate gifted cards are not materially misstated; and</li> <li>the estimates relating to the breakage of vouchers and corporate gifted cards have been prepared on a reasonable basis.</li> </ul> |

| Risk   | Our response to the risk  | Key observations communicated to the Audit Committee |
|--|---|--|
| <p><b>Completeness of provisions for redemption of vouchers and corporate gifted cards £54m (2019: £58m) including measurement of income resulting from estimates of breakage.</b> continued</p> | <p>We tested the integrity of historic data used by management to calculate the forecast of vouchers and corporate gifted cards that will not be redeemed.</p> <p>We assessed management's assumptions relating to breakage by:</p> <ul style="list-style-type: none"> <li>• making enquiries of management to understand changes in breakage rates since prior year and their rationale;</li> <li>• considering the accuracy of management's forecasts applied in previous years by comparing them to actual rates of expiry;</li> <li>• comparing the trends in historic breakage rates that have now crystallised to the rates forecast by management on open vouchers and cards; and</li> <li>• using the knowledge gained from our analysis of historic rates of expiry to form our own estimates of breakage and conclude whether management's estimates were within an acceptable range.</li> </ul> <p>We obtained an independent, externally sourced discount rate which we applied in our calculation of discounted future cash flows relating to the settlement of vouchers and corporate gifted cards. We compared our discounted cash flows to the calculations performed by management.</p> <p>We reviewed for reasonableness the disclosure in the financial statements of policies and judgements regarding voucher and card provisions.</p> |  |



## Independent Auditor's Report to the Members of Appreciate Group plc continued

| Risk  | Our response to the risk   | Key observations communicated to the Audit Committee  |
|---|--|---|
| <p><b>Assumptions used in determining the pension liability valuation – pension liability of £20m (2019: £23m)</b></p> <p>Refer to the Accounting policies (pages 81 and 84); and Note 20 of the Consolidated Financial Statements (pages 107 to 110).</p> <p>Appreciate Group plc has two defined benefit pension schemes that are accounted for in accordance with IAS 19(R) – Employee benefits (“IAS 19”). The actuarial valuations of the schemes are prepared by an actuary and reviewed by management.</p> <p>Judgment is exercised by management, with input from the independent actuary, in determining actuarial assumptions used by the actuary in measuring the IAS 19 liabilities.</p> <p>We consider that the risk is that the gross pension liability is materially misstated as a result of inappropriate actuarial assumptions or errors in the data used by the actuary.</p> <p>This risk is unchanged from the previous year.</p> | <p>We understood and assessed the design of key management controls relating to the determination of the pension assumptions and liability calculation. This included the provision of accurate data provided to the independent actuary and determining the assumptions used to calculate the liability. We did not seek to place reliance on the control framework.</p> <p>We obtained the IAS 19 reports prepared by the independent actuary for each of the two Schemes to understand the key assumptions used in the calculation.</p> <p>We obtained confirmation from management’s actuary of their independence from Appreciate Group.</p> <p>EY actuarial specialists were used to review the financial and demographic assumptions used for the purposes of IAS 19 disclosures and consider whether any assumptions fell outside of our acceptable range.</p> <p>We obtained the membership data used in the IAS 19 valuation and tested the accuracy of the membership numbers in the report against the 2019 full actuarial valuation.</p> <p>We reviewed the disclosures in the financial statements to ensure compliance with IAS 19.</p> | <p>Based on the procedures performed we concluded that the assumptions were within our acceptable range.</p> <p>We concluded that the disclosures within the financial statements were appropriate.</p> |

| Risk   | Our response to the risk   | Key observations communicated to the Audit Committee   |
|--|--|--|
| <p><b>Classification and valuation of assets held for sale £3.2m (2019: £nil)</b></p>  | <p>We obtained and reviewed management's paper on the classification of the property as AFS.</p>   | <p>Based on the procedures performed we concluded that the valuation of the assets held for sale was materially correct.</p> |
| <p>Refer to the Accounting policies (pages 79 and 85); and Notes 16 and 28 of the Consolidated Financial Statements (pages 102 and 117)</p>  | <p>We obtained and reviewed management's accounting paper on the valuation and impairment of the AFS.</p>  | <p>We concur with management that the criteria under IFRS 5 AFS were met at the year end date.</p>                           |
| <p>In August 2019 the Group relocated the majority of operations from Birkenhead to Liverpool. As a result of this relocation the site at Valley Road, Birkenhead was made available for sale, with certain elements proposed to be leased back. Management classified the site as an Asset Held for Sale ("AFS") on 30 September 2019.</p>      | <p>We obtained and reviewed management's specialist report on the valuation of the property.</p>   | <p>We concluded that the disclosures within the financial statements were appropriate.</p>                                   |
| <p>Management have assessed whether the site currently meets the definition of an Asset Held for Sale under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' ("IFRS 5") as at 31 March 2020 and have assessed its fair value less costs to sell at that date, recording an impairment charge of £1.65m.</p>                 | <p>We confirmed the reasonableness of the assumptions used in management's specialist report and in particular the costs associated with the site.</p>   |  |
| <p>We focused on this area due to:</p> <ul style="list-style-type: none"> <li>• the significance of the carrying value of the property and the sensitivity of the valuation to changes in estimates and economic factors; and</li> <li>• the subjectivity in assessing whether the property had met the criteria of AFS under IFRS 5.</li> </ul> | <p>We tested the accuracy of management's fair value less cost to sell calculation, agreeing the costs to sell to third party support, and the associated impairment calculation.</p>                        |  |
| <p>This risk has been adjusted in the current year to reflect management's recognition of the property as an asset held for sale.</p>  | <p>EY valuation specialists performed their own review to confirm whether the valuation sits within an acceptable range.</p>   |  |
|  | <p>We held discussions with management's property advisor to ensure we understood their role in the process, the details of the proposed sales transaction and their understanding of the costs to sell.</p> |  |
|  | <p>We considered whether the conditions of IFRS 5 were met, including whether the sale is highly probable within 12 months of classification as AFS.</p>   |  |
|  | <p>We obtained the sales contract that was executed on 10 August 2020 to consider the reasonableness of the 31 March 2020 carrying value.</p>  |  |
|  | <p>We reviewed the disclosures in the financial statements.</p>  |  |

## Independent Auditor's Report to the Members of Appreciate Group plc continued

### An overview of the scope of our audit

#### Tailoring the scope

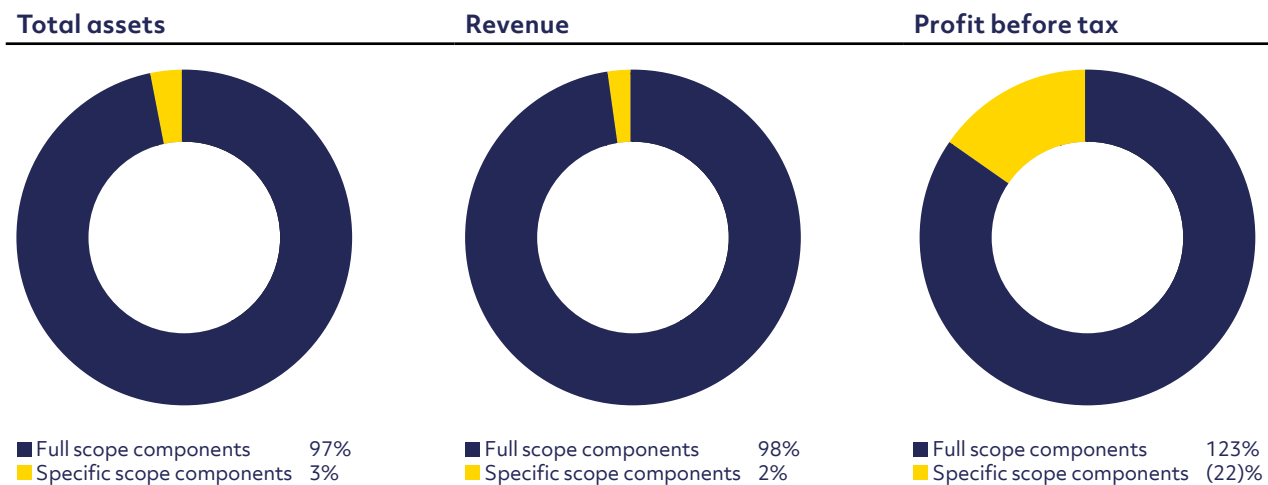
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and changes in the business environment when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected all ten reportable components within the Group.

Of the ten components identified, we performed an audit of the complete financial information of six components ("full scope components") which were selected based on their size or risk characteristics. For two components ("specific scope components"), we performed audit procedures on specific accounts within those components that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100 per cent (2019: 100 per cent) of the Group's pre-tax income, 100 per cent (2019: 100 per cent) of the Group's Revenue and 100 per cent (2019: 100 per cent) of the Group's Total assets. For the current year, the full scope components have a positive contribution of 123 per cent (2019: 114 per cent) of the Group's pre-tax income, 98 per cent (2019: 98 per cent) of the Group's Revenue and 97 per cent (2019: 97 per cent) of the Group's Total assets. The specific scope components had a negative contribution of (22) per cent (2019: (14) per cent) of the Pre-tax income, positive contribution of 2 per cent (2019: 2 per cent) of the Group's Revenue and 3 per cent (2019: 3 per cent) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

The charts below illustrate the coverage obtained from the work performed by our audit teams.



#### Changes from the prior year

There have been no changes in the scoping in the year.

#### Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

#### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

#### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Group to be £541,000 (2019: £627,000), which is 5 per cent (2019: 5 per cent) of profit before tax adjusted for exceptional items of impairment of property, plant and equipment, assets held for sale and goodwill. We believe that profit before tax and exceptional impairment charges provides us with a consistent year on year basis for determining materiality and is the most relevant performance measure to the stakeholders of the entity.

Our initial materiality was based on forecast profit before tax. We reassessed initial materiality in light of the non-recurring items identified by management in their finalised numbers.

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50 per cent (2019: 75 per cent) of our planning materiality, namely £270,000 (2019: £471,000). We have set performance materiality at this percentage due to our current and past experience of the audit where we have concluded that there was a higher risk of misstatements, both corrected and uncorrected.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £52,000 to £196,000 (2019: £94,000 to £353,000).

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £27,000 (2019: £31,000), which is set at 5 per cent of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Other information

The other information comprises the information included in the annual report, set out on pages 1 to 53, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the 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 the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and 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 Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' 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 parent Company 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 Statement of directors' responsibilities set out on page 50, 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 Group and parent 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 Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on 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.

### Jennifer Hazlehurst

(Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor  
Liverpool  
12 August 2020

# Financial Statements

|            |  |
|------------|--|
| <b>66</b>  | Consolidated Statement of Profit or Loss       |
| <b>66</b>  | Consolidated Statement of Comprehensive Income |
| <b>67</b>  | Statements of Financial Position               |
| <b>68</b>  | Consolidated Statement of Changes in Equity    |
| <b>69</b>  | Company Statement of Changes in Equity         |
| <b>70</b>  | Statements of Cash Flows                       |
| <b>71</b>  | Accounting Policies                            |
| <b>87</b>  | Notes to the Accounts                          |
| <b>119</b> | Notice of Annual General Meeting 2020          |
| <b>IBC</b> | Directors and Advisers                         |



# 03

## Consolidated Statement of Profit or Loss

For the year to 31 March 2020

|   | Notes | 2020<br>£'000   | 2019<br>£'000 |
|---|-------|-----------------|---------------|
| <b>Billings</b>   | 1     | <b>419,857</b>  | 426,901       |
| <b>Revenue</b>  | 1     |                 |               |
| – Goods – Single retailer redemption products                           |       | 62,142          | 55,624        |
| – Other goods   |       | 6,240           | 7,511         |
| – Services – Multi-retailer redemption products                         |       | 37,870          | 41,111        |
| – Other services  |       | 6,371           | 6,119         |
| – Other   |       | 101             | 29            |
|   |       | <b>112,724</b>  | 110,394       |
| Cost of sales excluding exceptional items                               |       | <b>(79,778)</b> | (79,117)      |
| Impairment of obsolete stock  | 11    | (124)           | –             |
| <b>Gross profit</b>   |       | <b>32,822</b>   | 31,277        |
| Distribution costs  |       | (2,838)         | (2,934)       |
| Administrative expenses   |       | (20,036)        | (17,401)      |
| Impairment of property, plant and equipment                             | 9     | (163)           | (1,210)       |
| Impairment of assets held for sale                                      | 16    | (1,650)         | –             |
| Impairment of goodwill  | 6     | (1,316)         | –             |
| Redundancy costs  | 21    | (423)           | –             |
| <b>Operating profit</b>   |       | <b>6,396</b>    | 9,732         |
| Finance income  | 3     | 1,481           | 1,572         |
| Finance costs   | 3     | (177)           | –             |
| <b>Profit before taxation</b>   | 1,2   | <b>7,700</b>    | 11,304        |
| Taxation  | 4     | (2,189)         | (2,422)       |
| <b>Profit for the year attributable to equity holders of the parent</b> |       | <b>5,511</b>    | 8,882         |
| Earnings per share  | 5     |                 |               |
| – basic   |       | 2.96p           | 4.78p         |
| – diluted   |       | 2.96p           | 4.77p         |

All activities derive from continuing operations.

## Consolidated Statement of Comprehensive Income

For the year to 31 March 2020

|   | Notes | 2020<br>£'000 | 2019<br>£'000 |
|---|-------|---------------|---------------|
| <b>Profit for the year</b>  |       | <b>5,511</b>  | 8,882         |
| Other comprehensive income/(expense)  |       |               |               |
| Items that will not be reclassified to profit or loss:                                      |       |               |               |
| Remeasurement of defined benefit pension schemes  | 20    | 2,235         | (1,009)       |
| Deferred tax on defined benefit pension schemes   | 4     | (383)         | 172           |
|   |       | <b>1,852</b>  | (837)         |
| Items that may be reclassified subsequently to profit or loss:                              |       |               |               |
| Foreign exchange translation differences  |       | 18            | (3)           |
| <b>Other comprehensive income/(expense) for the year net of tax</b>                         |       | <b>1,870</b>  | (840)         |
| <b>Total comprehensive income for the year attributable to equity holders of the parent</b> |       | <b>7,381</b>  | 8,042         |

## Statements of Financial Position

As at 31 March 2020

|  | Notes | Group            |                  | Company         |                 |
|--|-------|------------------|------------------|-----------------|-----------------|
|  |       | 2020<br>£'000    | 2019<br>£'000    | 2020<br>£'000   | 2019<br>£'000   |
| <b>Assets</b>  |       |                  |                  |                 |                 |
| <b>Non-current assets</b>                                  |       |                  |                  |                 |                 |
| Goodwill   | 6     | 800              | 2,168            | –               | –               |
| Other intangible assets                                    | 7     | 4,757            | 2,295            | 44              | 70              |
| Investments  | 8     | –                | –                | 7,981           | 8,904           |
| Property, plant and equipment                              | 9     | 2,662            | 6,216            | 350             | 531             |
| Right of use assets  | 19    | 3,799            | –                | –               | –               |
| Retirement benefit asset                                   | 20    | 4,206            | 1,927            | 1,984           | 1,715           |
|  |       | <b>16,224</b>    | <b>12,606</b>    | <b>10,359</b>   | <b>11,220</b>   |
| <b>Current assets</b>                                      |       |                  |                  |                 |                 |
| Inventories  | 11    | 2,840            | 4,574            | –               | –               |
| Trade and other receivables                                | 12    | 9,457            | 12,582           | 28,005          | 13,478          |
| Tax receivable   |       | 266              | –                | –               | 124             |
| Other financial assets                                     | 13    | –                | 200              | –               | –               |
| Monies held in trust                                       | 14    | 102,693          | 99,251           | –               | –               |
| Cash   | 15    | 29,632           | 36,868           | 28,769          | 35,872          |
|  |       | <b>144,888</b>   | <b>153,475</b>   | <b>56,774</b>   | <b>49,474</b>   |
| Assets held for sale                                       | 16    | 3,153            | –                | –               | –               |
|  |       | <b>148,041</b>   | <b>153,475</b>   | <b>56,774</b>   | <b>49,474</b>   |
| <b>Total assets</b>  |       | <b>164,265</b>   | <b>166,081</b>   | <b>67,133</b>   | <b>60,694</b>   |
| <b>Liabilities</b>   |       |                  |                  |                 |                 |
| <b>Current liabilities</b>                                 |       |                  |                  |                 |                 |
| Bank overdraft   | 17    | –                | (2,305)          | –               | (221)           |
| Trade payables   | 17    | (57,150)         | (61,191)         | (2)             | (197)           |
| Payables in respect of cards and vouchers                  | 17    | (17,060)         | (14,193)         | –               | –               |
| Deferred income  | 17    | (7,359)          | (6,983)          | –               | –               |
| Other payables   | 17    | (5,294)          | (5,280)          | (47,162)        | (41,937)        |
| Tax payable  |       | –                | (580)            | –               | –               |
| Provisions   | 18    | (53,802)         | (58,286)         | –               | –               |
|  |       | <b>(140,665)</b> | <b>(148,818)</b> | <b>(47,164)</b> | <b>(42,355)</b> |
| <b>Non-current liabilities</b>                             |       |                  |                  |                 |                 |
| Deferred tax liability                                     | 10    | (1,121)          | (553)            | (262)           | (168)           |
| Lease liabilities  | 17    | (4,132)          | –                | –               | –               |
|  |       | <b>(5,253)</b>   | <b>(553)</b>     | <b>(262)</b>    | <b>(168)</b>    |
| <b>Total liabilities</b>                                   |       | <b>(145,918)</b> | <b>(149,371)</b> | <b>(47,426)</b> | <b>(42,523)</b> |
| <b>Net assets</b>  |       | <b>18,347</b>    | <b>16,710</b>    | <b>19,707</b>   | <b>18,171</b>   |
| <b>Equity attributable to equity holders of the parent</b> |       |                  |                  |                 |                 |
| Share capital  | 22a   | 3,727            | 3,727            | 3,727           | 3,727           |
| Share premium  |       | 6,470            | 6,470            | 6,470           | 6,470           |
| Retained earnings  |       | 8,461            | 6,824            | 9,510           | 7,974           |
| Other reserves   |       | (311)            | (311)            | –               | –               |
| <b>Total equity</b>  |       | <b>18,347</b>    | <b>16,710</b>    | <b>19,707</b>   | <b>18,171</b>   |

The Company reported a profit for the financial year ended 31 March 2020 of £7,095,000 (2019 : £4,719,000).

The financial statements were approved and authorised for issue by the Board of Directors on 12 August 2020 and were signed on its behalf by:

**IO'Doherty**  
Chief Executive Officer

## Consolidated Statement of Changes in Equity

|  | Notes | Share capital<br>£'000 | Share premium<br>£'000 | Other reserves<br>£'000 | Retained earnings<br>£'000 | Total equity<br>£'000 |
|--|-------|------------------------|------------------------|-------------------------|----------------------------|-----------------------|
| Balance at 1 April 2019                                      |       | 3,727                  | 6,470                  | (311)                   | 6,824                      | 16,710                |
| <b>Total comprehensive income for the year</b>               |       |                        |                        |                         |                            |                       |
| Profit   |       | -                      | -                      | -                       | 5,511                      | 5,511                 |
| Other comprehensive expense                                  |       |                        |                        |                         |                            |                       |
| Remeasurement of defined benefit pension schemes             | 20    | -                      | -                      | -                       | 2,235                      | 2,235                 |
| Tax on defined benefit pension schemes                       | 4     | -                      | -                      | -                       | (383)                      | (383)                 |
| Foreign exchange translation adjustments                     |       | -                      | -                      | -                       | 18                         | 18                    |
| Total other comprehensive expense                            |       | -                      | -                      | -                       | 1,870                      | 1,870                 |
| <b>Total comprehensive income for the year</b>               |       | -                      | -                      | -                       | 7,381                      | 7,381                 |
| <b>Transactions with owners, recorded directly in equity</b> |       |                        |                        |                         |                            |                       |
| Equity settled share-based payment transactions              | 22b   | -                      | -                      | -                       | 233                        | 233                   |
| Tax on equity settled share-based payment transactions       | 4     | -                      | -                      | -                       | (14)                       | (14)                  |
| Dividends  | 23    | -                      | -                      | -                       | (5,963)                    | (5,963)               |
| <b>Total contributions by and distribution to owners</b>     |       | -                      | -                      | -                       | (5,744)                    | (5,744)               |
| <b>Balance at 31 March 2020</b>                              |       | <b>3,727</b>           | <b>6,470</b>           | <b>(311)</b>            | <b>8,461</b>               | <b>18,347</b>         |
| Balance at 1 April 2018                                      |       | 3,711                  | 6,137                  | (311)                   | 4,488                      | 14,025                |
| <b>Total comprehensive income for the year</b>               |       |                        |                        |                         |                            |                       |
| Profit   |       | -                      | -                      | -                       | 8,882                      | 8,882                 |
| Other comprehensive income/(expense)                         |       |                        |                        |                         |                            |                       |
| Remeasurement of defined benefit pension schemes             | 20    | -                      | -                      | -                       | (1,009)                    | (1,009)               |
| Tax on defined benefit pension schemes                       | 4     | -                      | -                      | -                       | 172                        | 172                   |
| Foreign exchange translation adjustments                     |       | -                      | -                      | -                       | (3)                        | (3)                   |
| Total other comprehensive income                             |       | -                      | -                      | -                       | (840)                      | (840)                 |
| <b>Total comprehensive income for the year</b>               |       | -                      | -                      | -                       | 8,042                      | 8,042                 |
| <b>Transactions with owners, recorded directly in equity</b> |       |                        |                        |                         |                            |                       |
| Equity settled share-based payment transactions              |       | -                      | -                      | -                       | 11                         | 11                    |
| Tax on equity settled share-based payment transactions       | 4     | -                      | -                      | -                       | (45)                       | (45)                  |
| Exercise of share options                                    |       | 12                     | 333                    | -                       | -                          | 345                   |
| LTIP shares awarded  |       | 4                      | -                      | -                       | (4)                        | -                     |
| Dividends  | 23    | -                      | -                      | -                       | (5,668)                    | (5,668)               |
| <b>Total contributions by and distribution to owners</b>     |       | 16                     | 333                    | -                       | (5,706)                    | (5,357)               |
| Balance at 31 March 2019                                     |       | 3,727                  | 6,470                  | (311)                   | 6,824                      | 16,710                |

Other reserves relate to the acquisition of the minority interest in a subsidiary.

## Company Statement of Changes in Equity

|  | Notes | Share capital<br>£'000 | Share premium<br>£'000 | Retained earnings<br>£'000 | Total parent equity<br>£'000 |
|--|-------|------------------------|------------------------|----------------------------|------------------------------|
| Balance at 1 April 2019                                      |       | 3,727                  | 6,470                  | 7,974                      | 18,171                       |
| <b>Total comprehensive income for the year</b>               |       |                        |                        |                            |                              |
| Profit   |       | -                      | -                      | 7,095                      | 7,095                        |
| Other comprehensive income                                   |       |                        |                        |                            |                              |
| Remeasurement of defined benefit pension scheme              | 20    | -                      | -                      | 230                        | 230                          |
| Tax on defined benefit pension scheme                        |       | -                      | -                      | (45)                       | (45)                         |
| <b>Total other comprehensive income</b>                      |       | -                      | -                      | 185                        | 185                          |
| <b>Total comprehensive income for the year</b>               |       | -                      | -                      | 7,280                      | 7,280                        |
| <b>Transactions with owners, recorded directly in equity</b> |       |                        |                        |                            |                              |
| Equity settled share-based payment transactions              | 22b   | -                      | -                      | 233                        | 233                          |
| Tax on equity settled share-based payment transactions       | 4     | -                      | -                      | (14)                       | (14)                         |
| Dividends  | 23    | -                      | -                      | (5,963)                    | (5,963)                      |
| <b>Total contributions by and distribution to owners</b>     |       | -                      | -                      | (5,744)                    | (5,744)                      |
| <b>Balance at 31 March 2020</b>                              |       | <b>3,727</b>           | <b>6,470</b>           | <b>9,510</b>               | <b>19,707</b>                |
| Balance at 1 April 2018                                      |       | 3,711                  | 6,137                  | 8,916                      | 18,764                       |
| <b>Total comprehensive income for the year</b>               |       |                        |                        |                            |                              |
| Profit   |       | -                      | -                      | 4,719                      | 4,719                        |
| Other comprehensive expense                                  |       |                        |                        |                            |                              |
| Remeasurement of defined benefit pension scheme              | 20    | -                      | -                      | 54                         | 54                           |
| Tax on defined benefit pension scheme                        |       | -                      | -                      | (9)                        | (9)                          |
| <b>Total other comprehensive expense</b>                     |       | -                      | -                      | 45                         | 45                           |
| <b>Total comprehensive income for the year</b>               |       | -                      | -                      | 4,764                      | 4,764                        |
| <b>Transactions with owners, recorded directly in equity</b> |       |                        |                        |                            |                              |
| Equity settled share-based payment transactions              |       | -                      | -                      | 11                         | 11                           |
| Tax on equity settled share-based payment transactions       | 4     | -                      | -                      | (45)                       | (45)                         |
| Exercise of share options                                    |       | 12                     | 333                    | -                          | 345                          |
| LTIP shares awarded  |       | 4                      | -                      | (4)                        | -                            |
| Dividends  | 23    | -                      | -                      | (5,668)                    | (5,668)                      |
| <b>Total contributions by and distribution to owners</b>     |       | 16                     | 333                    | (5,706)                    | (5,357)                      |
| Balance at 31 March 2019                                     |       | 3,727                  | 6,470                  | 7,974                      | 18,171                       |



## Statements of Cash Flows

For the year to 31 March 2020

|   | Notes | Group          |                | Company         |                |
|---|-------|----------------|----------------|-----------------|----------------|
|   |       | 2020<br>£'000  | 2019<br>£'000  | 2020<br>£'000   | 2019<br>£'000  |
| <b>Cash flows from operating activities</b>                   |       |                |                |                 |                |
| Cash generated from/(used in) operations                      | 24    | 6,866          | 6,874          | (8,212)         | (6,276)        |
| Interest received   |       | 1,648          | 1,497          | 133             | 133            |
| Interest paid   |       | (8)            | –              | –               | –              |
| Tax paid  |       | (2,864)        | (1,576)        | (2,812)         | (1,656)        |
| <b>Net cash generated from/(used in) operating activities</b> |       | <b>5,642</b>   | <b>6,795</b>   | <b>(10,891)</b> | <b>(7,799)</b> |
| <b>Cash flows from investing activities</b>                   |       |                |                |                 |                |
| Proceeds from sale of property, plant and equipment           |       | 1              | –              | –               | –              |
| Dividends received from group companies                       |       | –              | –              | 10,000          | 10,000         |
| Purchase of intangible assets                                 |       | (3,103)        | (781)          | –               | (26)           |
| Purchase of property, plant and equipment                     |       | (1,927)        | (371)          | (28)            | (211)          |
| <b>Net cash (used in)/generated from investing activities</b> |       | <b>(5,029)</b> | <b>(1,152)</b> | <b>9,972</b>    | <b>9,763</b>   |
| <b>Cash flows from financing activities</b>                   |       |                |                |                 |                |
| Lease incentive payment                                       |       | 500            | –              | –               | –              |
| Payment of lease liabilities                                  |       | (81)           | –              | –               | –              |
| Proceeds of exercise of share options                         |       | –              | 345            | –               | 345            |
| Dividends paid to shareholders                                |       | (5,963)        | (5,668)        | (5,963)         | (5,668)        |
| <b>Net cash used in financing activities</b>                  |       | <b>(5,544)</b> | <b>(5,323)</b> | <b>(5,963)</b>  | <b>(5,323)</b> |
| <b>Net (decrease)/increase in cash and cash equivalents</b>   |       |                |                |                 |                |
|   |       | <b>(4,931)</b> | <b>320</b>     | <b>(6,882)</b>  | <b>(3,359)</b> |
| Cash and cash equivalents at beginning of period              |       | 34,563         | 34,243         | 35,651          | 39,010         |
| Cash and cash equivalents at end of period                    |       | 29,632         | 34,563         | 28,769          | 35,651         |
| Cash and cash equivalents comprise:                           |       |                |                |                 |                |
| Cash  | 15    | 29,632         | 36,868         | 28,769          | 35,872         |
| Bank overdrafts   | 17    | –              | (2,305)        | –               | (221)          |
|   |       | <b>29,632</b>  | <b>34,563</b>  | <b>28,769</b>   | <b>35,651</b>  |

## Accounting Policies

### Basis of preparation

The financial statements have been prepared in accordance with IFRSs as adopted by the EU including International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Appreciate Group plc is a company limited by shares and is incorporated and domiciled in the United Kingdom. It is listed on AIM and details of the registered office and registration number are given on the inside back cover.

The financial statements have been prepared under the historical cost convention. The Group and Company financial statements are presented in sterling, which is also the functional currency of the parent Company. All values are rounded to the nearest thousand (£'000) except where otherwise stated.

The accounting policies have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and by all Group entities.

### Going concern

The financial statements are prepared on a going concern basis.

At the start of lockdown in March 2020, just like many businesses across the UK, the Group followed Government guidance and temporarily closed its distribution and warehouse facilities to help stop the spread of coronavirus. With no means to fulfil physical orders at that time the Group's focus shifted to digital products. In May 2020 the Valley Road facility reopened with social distancing procedures in place.

There has been a negative impact on trading for quarter one of the financial year ending 31 March 2021, with reductions in billings compared to the same period in the prior year of 45 per cent for corporate and 65 per cent for HSV, our website where we service both consumer and corporate customers. Redemptions have also significantly fallen, with an 80 per cent decrease for vouchers and 61 per cent decrease for cards and ecodes compared to quarter one of the prior year.

Despite this, as the year has progressed the month-on-month trend in billings has been encouraging, with significant improvement being shown in each successive month's results. Corporate and HSV billings for April 2020 were 35 per cent and 19 per cent respectively of April 2019 billings, whereas for June 2020 were 68 per cent and 54 per cent of the levels seen in June 2019.

The Group has taken action to conserve cash during this uncertain time and support its position as a going concern. These actions include the following:

- Furloughing employees - The Group has utilised the Government's Job Retention Scheme with a number of employees being furloughed, whose pay has been topped up to 100 per cent by the Group. In quarter one of the financial year ending 31 March 2021, there were an average of 65 employees on furlough per month, for a total saving of £243,000 in the quarter.
- Dividend cancellation - The Group decided to cancel the dividend payment for 2020, which has conserved £6m of cash.
- Deferral of VAT payments - The Group has deferred £936,000 of VAT payments between March and June 2020. These are now payable by 31 March 2021.
- Employee remuneration revisions - The decision was made to cancel all annual pay reviews, make no awards for FY2019/20 under the company wide annual bonus plan and to postpone the leadership team's share incentive awards for the year ended 31 March 2020.

In addition to the above actions that have already been taken, management have reviewed the cost base of the business in order to identify any further potential savings.

### Forecasting

Five scenarios have been modelled in order to assess the potential impact of the Covid-19 pandemic on the results of the Group going forward. The key variables that are altered between scenarios are: corporate and HSV demand, Christmas savers order book cancellations and reductions, and paper and card redemptions. The scenarios model the upcoming two year period, with specific focus on the twelve months from the signing of the annual report and accounts. The base case was approved by the Board. Management concluded that this base case reflected their best estimate of the likely impact of Covid-19, with initial trading slightly ahead, and this base case has also been used in the financing discussions with the banks.

## Accounting Policies continued

### Going concern continued

#### Base case scenario

The base case scenario, assumes decreases in corporate and HSV billings against the initial forecast of 60 per cent in quarter one of the year ending 31 March 2021, with a gradual recovery through the financial year to 25 per cent down in quarter four. In quarter one and two of the year ending 31 March 2022 (which goes just beyond the twelve month going concern window from signing of the accounts), growth of 40 per cent against the 2021 forecast is assumed. The reduction in Christmas savers in year one is 11 per cent.

The actual results for quarter one are slightly ahead of the base case, with overall corporate and HSV billings decreasing by 48 per cent compared to the 60 per cent assumed. In addition, July trading is ahead of forecast. This gives the Group confidence that the base case scenario is currently the best estimate and minimises the likelihood of any downside risks modelled within the other scenarios.

From a going concern perspective, the monthly forecasting of the Group's free cash balance in this scenario is the key area for consideration, as liquidity is the principal going concern risk. The base case, before usage of the RCF, shows a negative free cash balance in July 2021, recovering by September 2021.

#### Downside scenario

In addition to the base case, management also considered the downside scenario that assumed decreases in corporate and HSV billings against the initial forecast of 75 per cent in quarter one of the year ending 31 March 2021, with a gradual recovery through the financial year to 25 per cent down in quarter four. In quarter one and two of the year ending 31 March 2022, growth of 40 per cent against the 2021 forecast is assumed. The reduction in Christmas savers in year one is 14 per cent. This forecast a negative free cash balance, before usage of the RCF, in June 2021.

#### Further actions possible

Management has identified further actions which could be freely implemented in order to conserve cash. These actions do not include any staff redundancies other those being consulted on in respect of the closure of the fulfilment business.

These savings include:

- reduction in discretionary consultancy and IT costs;
- delaying the implementation of the new ERP system; and
- cancelling the bonus for the year ending 31 March 2021.

These were overlaid net of additional costs, including those associated with the closure of the fulfilment business.

The overall impact of these actions is to bolster the cash position of the Group, with the base case, before usage of the RCF, showing a small shortfall in August 2021.

#### New financing

The Group has access to a recently agreed committed RCF of £15m, with an additional uncommitted accordion of £10m.

With the RCF in place, and having cancelled the final dividend payment, the directors consider that sufficient headroom exists to cover any negative sensitivities of COVID-19 in both the base case and downside scenario.

The following covenants are in place with regards to the RCF:

- Leverage/net debt cover – debt must not be greater than three times the last twelve months (LTM) rolling earnings before interest, taxation, depreciation and amortisation (EBITDA);
- Interest cover – LTM rolling EBITDA must not be less than four times the LTM rolling interest charge. This is expected to be approximately £50,000 per month, resulting in a LTM rolling interest charge of £0.6m, meaning LTM rolling EBITDA must not fall below £2.4m; and
- Christmas savers cash - requires that Christmas savers cash cannot be lower than monies in advance.

A LTM basis is used due to the seasonality of the Group's business. The leverage/net debt cover and interest cover covenants are assessed on a biannual basis starting in March 2021. The Christmas savers cash covenant is measured quarterly starting March 2021.

With the RCF in place, in line with the base case forecast, it is not envisaged that the Group will draw down on the facility until July 2021. The Group is forecast to be in full compliance with the three covenants throughout the twelve month period from the signing of the annual report and accounts, with sufficient headroom in place in both the base case and downside scenarios.

### Reverse Stress Tests

Several reverse stress tests have been completed. These allow management to assess their current financial resources and the likelihood that such a 'business-breaking' scenario would occur.

Reverse stress tests were run in respect of accelerated voucher redemption, reduced voucher billings and reduced Corporate and HSV billings (across vouchers, cards and codes). Each stress test brought forward the timing at which the RCF was required within the business. In each test, with the RCF in place and in some cases with further mitigating actions, each position could be managed, albeit the covenants currently agreed would be breached. However, management were satisfied that each reverse stress test was highly unlikely due to the extreme nature of the sensitivity required.

### Conclusion

*The directors have carefully considered the base case, downside scenario, current trading and trends since the year end and the assessment of the reverse stress tests. In light of the newly agreed £15m RCF, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Directors continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.*

### Changes to International Financial Reporting Standards

#### Interpretations and standards which became effective during the year

The following accounting standards and interpretations, that are relevant to the Group, became effective during the year:

|          |                                       | Effective from accounting period<br>beginning on or after: |
|----------|---------------------------------------|--|
| IFRIC 23 | Uncertainty over Income Tax Treatment | 1 Jan 2019   |
| IFRS 16  | Leases                                | 1 Jan 2019   |

The impact of IFRS16 on the financial statements is shown in the leases accounting policy on pages 81 to 83.

IFRIC 23 has not had a material impact upon the Group's financial performance or position.

#### Interpretations and standards which have been issued and are not yet effective

##### Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material are not expected to have a significant impact on the Group's consolidated financial statements.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

Subsidiaries are entities controlled by the investor. Control is achieved when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The results of a subsidiary undertaking are included in the consolidated financial statements from the date that control commences until the date that control ceases. All subsidiaries share the same reporting date and are based on consistent accounting policies. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

Intra-group balances, and any unrealised gains or losses or income and expenses arising from intra-group transactions, are eliminated on consolidation.

Generally, there is a presumption that a majority of voting rights results in control. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

As permitted by section 408 of the Companies Act 2006, the statement of profit or loss of the parent Company has not been separately presented. The profit of the parent Company is shown in a footnote to its statement of financial position.

## Accounting Policies continued

### Business combinations

A business combination is recognised where separate entities or businesses have been acquired by the Group.

The acquisition method of accounting is used to account for the business combinations made by the Group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Where the consideration includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the cost of the acquisition. Acquisition related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in the business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the Group's share of the identifiable net assets of the subsidiary acquired, the difference is taken immediately to the statement of profit or loss.

### Segmental reporting

An operating segment is a distinguishable component of an entity about which separate financial information is available that is evaluated regularly by management in deciding how to allocate resources and in assessing performance. Provided certain quantitative and qualitative criteria are fulfilled, IFRS 8 Operating Segments permits the aggregation of those components into reportable segments for the purposes of disclosure in the Group's financial statements. In assessing the Group's reportable segments, the directors have had regard to the nature of the products offered and the client bases amongst other factors. The operating segments as set out in note 1 are consistent with the internal reporting provided to the chief operating decision maker. For the purposes of IFRS8 the chief operating decision maker has been identified as the Executive Management Board. All inter-segment transfers are carried out at arm's length prices.

The Group operates in one geographical segment, being the UK. The Group operations in the Eurozone are immaterial to the results and assets of the Group in the year ended 31 March 2020.

### Revenue from contacts with customers

The Group recognises revenue from contracts with customers when control over the goods and services is transferred to the customer. Revenue is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services, net of VAT, rebates and discounts.

The Group is a principal if it controls the promised good or service before transferring it to the customer. The Group is an agent if its role is to arrange for another entity to provide the good or service. The Group acts as an agent in the sale of multi-retailer redemption products and travel agency services and therefore fees that are retained for its agency service are recorded in revenue on a net basis. For all other products and services, the Group acts as a principal and revenues are recorded on a gross basis.

As described below, the majority of revenues are recognised at a point in time. For multi-retailer redemption products revenue is recognised when the products are redeemed; for single retailer redemption products and other goods revenue is recognised when the goods are received by the customer. Revenue for other services is recognised over time or at a point in time depending on the nature of the revenue stream, as described further in (ii) below.

The Group's multi-retailer redemption products may be partially or fully redeemed, and the unused amount (ie the non-refundable unredeemed or unspent funds on a voucher, card or e-code at expiry) is referred to as breakage. Where the end user has no right of redemption (corporate gifted cards), the Group may expect to earn a breakage amount and this is recognised as revenue in proportion to the actual timing of redemptions. Where the customer has the right of refund, breakage is recognised as revenue when the card has expired and the right of refund has lapsed.

Significant accounting judgements and estimates relating to revenue are described on pages 84 and 85.



The Group's primary revenue streams are as follows:

1. Services – multi-retailer redemption products
  - a) Love2shop vouchers
  - b) flexecash® cards and e-codes
  - c) Mastercards
2. Goods – single retailer redemption products
  - a) third party vouchers, cards and e-codes
3. Other goods
  - a) hampers and gifts
4. Other services
  - a) brand engagement
  - b) packing
  - c) collection and delivery
  - d) travel agency
  - e) other services

Customers are offered standard business credit terms or pay in advance for their products and services.

For multi-retailer redemption products, the Group recognises revenue for service fees, cardholder fees and breakage.

The Group has contractual relationships with each of the redeemers. The Group earns a service fee from the redeemer when a consumer redeems their voucher, card or e-code with that redeemer.

Cardholder fees are earned for services provided to cardholders such as issue, dealing with lost/stolen/damaged cards and maintenance.

**(i) Principal and Agent**

Under IFRS15, the Group is a principal (and records revenue on a gross basis) if it controls the promised good or service before transferring it to the customer.

The Group is an agent (and records as revenue the net amount that it retains for its agency services) if its role is to arrange for another entity to provide the good or service.

|     | Revenue stream                          | Principal/<br>Agent | Gross/Net<br>revenue | Revenue based on                                   |
|-----|---|---------------------|----------------------|--|
| 1a) | Love2shop vouchers                      | Agent               | Net                  | Service fees received from redeemers               |
| 1b) | flexecash® cards and e-codes            | Agent               | Net                  | Service fees received from redeemers               |
| 1c) | Mastercards                             | Agent               | Net                  | Service fees received from redeemers               |
| 2a) | Third party vouchers, cards and e-codes | Principal           | Gross                | Values invoiced to external customers for goods    |
| 3a) | Hampers and gifts                       | Principal           | Gross                | Values invoiced to external customers for goods    |
| 4a) | Brand engagement                        | Principal           | Gross                | Values invoiced to external customers for services |
| 4b) | Packing                                 | Principal           | Gross                | Values invoiced to external customers for services |
| 4c) | Collection and delivery                 | Principal           | Gross                | Values invoiced to external customers for services |
| 4d) | Travel agency                           | Agent               | Net                  | Agent's commission received                        |
| 4e) | Other services                          | Principal           | Gross                | Values invoiced to external customers for services |

For multi-retailer redemption products, in addition to the service fees noted above, the Group also earns cardholder fees and breakage as follows:

|    | Revenue stream  | Principal/<br>Agent | Gross/<br>Net revenue | Revenue based on                |
|----|-----------------|---------------------|-----------------------|---------------------------------|
| 1. | Cardholder fees | Principal           | Gross                 | Charges levied                  |
| 1. | Breakage        | Principal           | Gross                 | Non-refundable unredeemed funds |

For all revenue streams, intra-group sales are eliminated and revenue is recorded net of VAT, rebates and discounts.

## Accounting Policies continued

### Revenue from contacts with customers continued

#### (ii) Timing of revenue recognition

Under IFRS15, revenue is recognised when (or as) an entity satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control.

| Revenue stream                              | Revenue recognised  |
|---|---|
| 1a) Love2shop vouchers                      | Service fees – when product is redeemed.<br>Breakage – in proportion to actual redemption timing.   |
| 1b) flexecash® cards and e-codes            | Service fees – when product is redeemed.<br>Cardholder fees – when fees are levied.<br>Breakage (where end user has no right of refund) – in proportion to actual redemption timing.<br>Breakage (where end user has the right of refund) – when product has expired and the right of refund has lapsed.  |
| 1c) Mastercards                             | Service fees – when product is redeemed.<br>Cardholder fees – when fees are levied.<br>Breakage (where end user has no right of refund) – in proportion to actual redemption timing.<br>Breakage (where end user has the right of refund) – when product has expired and the right of refund has lapsed.  |
| 2a) Third party vouchers, cards and e-codes | When the customer obtains control of the goods – usually the date on which they are received by the customer.   |
| 3a) Hampers and gifts                       | When the customer obtains control of the goods – usually the date on which they are received by the customer.   |
| 4a) Brand engagement                        | Over time. As the services provided are unique to each client, the Group's performance creates an asset with no alternative use to the Group. Additionally, the Group has an enforceable right to payment for work performed. Revenue continues to be recognised using input methods, as this is the measure of progress which most faithfully depicts the Group's performance towards complete satisfaction of the performance obligation. The majority of projects are less than 12 months in duration. |
| 4b) Packing                                 | When the customer obtains control of the service – usually the date on which they are received by the customer.   |
| 4c) Collection and delivery                 | When the customer obtains control of the service – usually the date on which they are received by the customer.   |
| 4d) Travel agency                           | When the commission is paid by the third party agent.   |
| 4e) Other services                          | When the customer obtains control of the service – usually the date on which they are received by the customer.   |

Travel commission represents variable consideration contingent on future events (as travel plans can be changed or cancelled after the original booking date). Accordingly, the Group does not recognise revenue until it is highly probable that a significant reversal in the amount of cumulative revenue will not occur.

Under IFRS15, certain costs related to discounts and commissions are recognised as follows:

| Cost   | Timing of recognition                      |
|--|--|
| Discounts for multi-retailer redemption products provided to corporate clients | In proportion to actual redemption timing. |
| Commission rewards for multi-retailer redemption products                      | In proportion to actual redemption timing. |

### (iii) Presentation and disclosure

Under IFRS15, the below items are presented as follows:

|   | Presentation   |
|---|--|
| Breakage on multi-retailer redemption products  | Presented as revenue in the Statement of Profit or Loss.   |
| Deferred revenue (contract liabilities) for multi-retailer redemption products – service fees | Presented as deferred income in the Statement of Financial Position for vouchers, cards and e-codes.   |
| Deferred revenue for multi-retailer redemption products – breakage                            | Presented as deferred income in the Statement of Financial Position for vouchers, cards and e-codes.   |
| Discounts   | Discounts form part of the transaction price and are therefore presented as deductions from revenue in the Statement of Profit or Loss.                                    |
| Deferred discounts for multi-retailer redemption products                                     | Netted against deferred income in the Statement of Financial Position for vouchers, cards and e-codes.   |
| Agents' commission  | Incremental cost of obtaining customer contracts, presented in cost of sales in the Statement of Profit or Loss and in prepayments in the Statement of Financial Position. |
| Deferred agents' commission for multi-retailer redemption products                            | Commission costs for multi-retailer redemption products are included in prepayments in the Statement of Financial Position.  |

Prepaid costs and deferred income are not discounted to take into account the expected timing of redemption as the impact is not considered to be material. This is due to the fact that over 90 per cent of multi-retailer redemption products are redeemed within 12 months of issue.

### Contract balances

#### Trade Receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (ie only the passage of time is required before payment of that consideration is due).

#### Contract Liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. Contract liabilities are presented as deferred income within trade and other payables.

### Billings

Billings represents the value of goods and services shipped and invoiced to customers during the year and is recorded net of VAT, rebates and discounts. Billings is an alternative performance measure, which the directors believe provides a more meaningful measure of the level of activity of the Group than revenue. This is due to revenue from multi-retailer redemption products being reported on a 'net' basis, whilst revenue from single retailer redemption products and other goods are reported on a 'gross' basis.

The reconciliation between billings and revenue is as follows:

|   | 2020<br>£'000 | 2019<br>£'000 |
|---|---------------|---------------|
| Billings  | 419,857       | 426,901       |
| Multi-retailer redemption products – gross to net revenue recognition | (306,574)     | (315,305)     |
| Timing of revenue recognition   | (559)         | (1,202)       |
| Revenue   | 112,724       | 110,394       |

### Operating profit

Operating profit is reported as profit before taxation and finance income and costs; but after distribution costs, administrative expenses and exceptional items.

### Finance income and costs

Finance income comprises the returns generated on cash and cash equivalents, other financial assets, leases for which the Group is the lessor, and monies held in trust, and is recognised as it accrues. Finance costs comprise the interest on external borrowings and lease liabilities, and are recognised as they accrue.

### Goodwill

Goodwill arising on acquisition represents the difference between the consideration and the fair value of net assets acquired. Goodwill is not amortised, but is reviewed annually for impairment and whenever events or changes in circumstances indicate that the carrying value of the goodwill may not be recoverable. Goodwill in existence at 1 April 2004, the date of transition to IFRS for the Group, is carried in the statement of financial position as deemed cost less accumulated impairment losses at that date.

## Accounting Policies continued

### Impairment of property, plant and equipment and intangibles

At each reporting date the Group reviews the carrying value of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Intangible assets with indefinite lives, such as goodwill, are tested annually for impairment. All other assets subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised to the extent that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Value in use is calculated using cash flows derived from budgets and projections approved by the board which are discounted at the Group's risk adjusted weighted cost of capital calculated from equity market data and borrowing rates.

Testing is performed at the level of a cash generating unit (CGU) in order to compare the CGU's recoverable amount against its carrying value. Goodwill and intangible assets, ie customer lists, are allocated to CGUs based on past acquisitions of Christmas savings club brands and customer lists. Whilst these are not operating segments, as management do not manage and review the business at this level, information is available to enable the assets to be tested for impairment at this level.

Any impairment is recognised immediately through the statement of profit or loss. Impairment losses are reversed if there is evidence of an increase in the recoverable amount of a previously impaired asset, but only to the extent that the recoverable amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised. Impairments in respect of goodwill are not subsequently reversed.

### Other intangible assets

#### *Purchased software*

Acquired software licences are capitalised at cost and are amortised on a straight-line basis over their anticipated useful life, which is 3-5 years.

#### *Software development*

Costs that are directly associated with the creation of identifiable software, which meet the development asset recognition criteria as laid out in IAS 38 Intangible Assets, are recognised as intangible assets. Direct costs include the employment costs of staff directly involved in specific software development projects and external consultancy fees.

All other software development and maintenance costs are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised over their anticipated useful lives of between 3 and 10 years on a systematic straight-line basis. Amortisation begins on the date the asset is completed.

#### *Customer lists*

Customer lists acquired are included at cost less accumulated amortisation and impairment. They are amortised over their useful life of up to 10 years based on the pattern of forecast cash flows to be generated.

### Investments

Investments are stated at cost less any provision for impairment in their value. Impairment is calculated based on lower of cost or recoverable amount, determined with reference to the higher of fair value less cost of disposal and value in use.

### Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost represents expenditure that is directly attributable to the purchase of the asset. At the date of transition to IFRS on 1 April 2004, land and buildings previously held at cost under UK GAAP less accumulated depreciation were revalued and the fair values derived have been taken as their deemed cost as at that date in accordance with the exemption available under IFRS 1 First time Adoption of International Financial Reporting Standards. The parent Company's date of transition to IFRS was 1 April 2006, however it did not revalue its land and buildings at that date.

Depreciation is charged on a straight-line basis, so as to write off the costs of assets less their residual values over their estimated useful lives, on the following basis:

|                        |  |
|------------------------|--|
| Freehold land          | Nil  |
| Freehold buildings     | 2–2.5 per cent   |
| Leasehold improvements | over term of the lease or the useful economic live of between 3 and 15 years, whichever is lower |
| Short leasehold        | over unexpired term of lease   |
| Fixtures and equipment | 10–20 per cent   |
| Motor vehicles         | 25 per cent  |

The assets' estimated useful lives, depreciation rates and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying value is written down immediately to its recoverable amount if its carrying value is greater than its recoverable amount.

The gain or loss arising on disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss.

### Assets held for sale

On initial classification as held for sale, assets are measured at the lower of their present carrying amount and the fair value less costs to sell, with any adjustments taken to the statement of profit or loss. These assets are not depreciated.

Assets are classified as held for sale when they satisfy the following criteria:

- management is committed to a plan to sell
- the asset is available for immediate sale
- an active programme to locate a buyer is initiated
- the sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions)
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the 'first in first out' method and is based on purchase price. Finished goods and work in progress includes attributable production overheads. Net realisable value is based on estimated selling price in the ordinary course of the business less cost of disposal having regard to the age, saleability and condition of the inventory.

### Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes party to the contractual provisions of the instrument.

#### Financial assets

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

The Group only holds financial assets that are classified as loans and receivables and are measured at amortised cost.

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

#### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (removed from the Group's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either:
  - (a) the Group has transferred substantially all the risks and rewards of the asset, or
  - (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement.

#### Trade and other receivables

For trade and other receivables the Group applies the simplified approach permitted by IFRS9, with lifetime expected credit losses (ECLs) recognised from initial recognition of the receivable. These assets are assessed based on the Group's historical credit loss experience adjusted for forward looking information. The Group uses historical trends to then apply this to an assessment of the likely credit losses in the future. The Group's experience has shown that aging of receivable balances is primarily due to normal collection process issues rather than increased likelihood of non-recoverability. At each reporting date, management reviews the carrying amount of its receivables to determine whether there is any indication that those assets had suffered an impairment loss.



## Accounting Policies continued

### Financial instruments continued

In respect of receivables from subsidiaries, management's assessment of the impact of IFRS9 has focused on the change in IFRS9 around ECLs on intercompany balances. The loans to the subsidiary companies are classified as repayable on demand. Management have considered the probability of default, the loss given default, when the borrower is not capable of repaying on demand, and the discount rate when calculating ECLs.

### Monies held in trust

On 13 August 2007 a declaration of trust constituted the PPPT to hold agents' prepayments. Park Prepayments Trustee Company Limited, as trustee of the trust, holds this money on behalf of agents. The conditions of the release of this money to the Group are detailed in the trust deed, which is available at [www.getpark.co.uk](http://www.getpark.co.uk).

On 16 February 2010 a declaration of trust constituted the PCSET to hold the e-money float in accordance with regulatory requirements. The e-money float represents the value of the obligations of the company to cardholders and redeemers. The liability in respect of deposits received on flexecash® cards is held within trade payables and provisions.

Ring fenced funds represent amounts segregated from Group cash balances and are in respect of monies held on cards which are not subject to regulatory requirements.

Monies held under the declaration of trust with the PPPT and the PCSET on behalf of customers, cardholders and redeemers, and ring fenced funds are recognised on the statement of financial position as the Group has access to the interest on these monies and can, having met certain conditions, withdraw the funds. However, given the restrictions over these monies, the amounts held in trust are not included in cash and cash equivalents for the purposes of the statement of cash flows.

### Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held with banks with short maturities of three months or less, however, the deposits can be accessed immediately if required. It is therefore considered appropriate that these deposits be classed as cash and cash equivalents. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position. Cash balances and overdrafts are offset where the Group has the ability and intention to settle these balances on a net basis. For cash flow purposes, bank overdrafts are shown within cash and cash equivalents.

### Financial liabilities

Non-derivative financial liabilities are classified as other financial liabilities. The Group's other financial liabilities comprise borrowings, trade and other payables. Other financial liabilities are carried at amortised cost using the effective interest method. A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

### Trade and other payables

Trade and other payables are initially recorded at fair value and subsequently measured at amortised cost using the effective interest method. The unspent balances on flexecash® cards and e-codes where the cardholder has the right of redemption are accounted for as a financial liability as required under IAS39, and are reported separately under trade and other payables.

### Provisions

#### Unredeemed vouchers and cards

Unredeemed vouchers and unspent balances on flexecash® cards and e-codes where the cardholder does not have the right of refund (corporate gifted cards), are included at their present value at the date of recognition. This comprises the anticipated amounts payable to retailers on redemption, after applying an appropriate discount rate to take into account the expected timing of payments. Anticipated payments to retailers are assessed by reference to historical data as to voucher and card redemption rates and timings. The key estimates used in deriving the provision include the future service fees paid by retailers, interest rates used for discounting and the timing and amount of the future redemption of vouchers and cards. The future cash payments are discounted as required under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as the amounts are considered to be material. The service fee and breakage revenue associated with multi-retailer redemption products is deferred as described in the revenue recognition accounting policy.

#### Payment protection insurance

An amount is provided to cover existing and future potential settlements in relation to claims made in respect of mis-selling this insurance. These policies were sold as part of the closed loan broking business. The future cash payments are not discounted as required under IAS37 as the amounts are not considered to be material.

#### Dilapidations

An amount is provided to cover the future cost of removing leasehold improvements and restoring the Group's leased offices to their previous condition. Per IAS16.16, if an entity installs leasehold improvements that it is later obligated to remove, the obligating event is the installation of the leasehold improvements, and therefore the debit side of this provision is recorded as part of the leasehold improvements in the property, plant and equipment note.

## Employee benefits

### *Retirement benefit obligation*

The Group has both defined benefit and defined contribution pension plans. The assets of the defined benefit pension plans are held in separate trustee administered funds.

### *Defined benefit plan*

The fair value of the plan assets less the present value of the defined benefit obligation is recognised in the statement of financial position as the retirement benefit asset, after applying the asset ceiling test. The limit on the recognition of a defined benefit pension asset is measured as the value of economic benefit available to the Company in the form of refunds or reductions in future contributions, in accordance with the rules of the pension schemes.

Regular valuations are prepared by independent professionally qualified actuaries on the projected unit credit method. The valuations are carried out every three years and updated on a yearly basis for accounting purposes. These determine the level of contribution required to fund the benefits set out in the rules of the plans and allow for the periodic increase of pensions in payment.

The schemes are closed to future accrual for years' service but pensions are still dependent on actual final salaries. Consequently, the Group may have an amendment in future where salary rises differ from those projected. For any related plan amendment, these are recognised immediately in the statement of profit or loss.

Remeasurements comprise actuarial gains and losses on the obligations and the return on scheme assets (excluding interest). They are recognised immediately in other comprehensive income in the SOCI. Net interest cost is calculated by applying the discount rate on liabilities to the net pension liability or asset (adjusted for cash flows over the accounting period) and is recognised within administrative expenses.

### *Defined contribution plans*

For defined contribution plans, the Group pays contributions to privately administered pension plans on a contractual basis. The contributions are recognised as an employee benefit expense as they fall due.

### *Holiday pay*

Provision is made for any holiday pay accrued by employees to the extent that the holiday entitlements accrued have not been taken at the period end.

## Share-based payments

The Group operates a number of equity settled share-based payment plans.

The expense is calculated as the fair value of the share options at the date of grant, using monte-carlo simulation (LTIP and SGP awards), Black-Scholes formula (SAYE 2018) and the binomial method (SAYE 2015). A corresponding amount is recorded as an increase in equity. This expense is recognised on a straight-line basis over any relevant vesting period and is adjusted on a prospective basis at each period end for any changes in assumptions or estimates that relate to non-market conditions, taking into account the conditions existing at each year end. Where an employee fails to complete a specified service period, including termination of employment, the awards are considered to have been forfeited and the cumulative expense is reversed.

## Own shares

The Group has an employee benefit trust used for the granting of shares to executives and certain employees. Own shares held are recognised at cost as a deduction from shareholders' equity. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sales proceeds and original cost being taken to equity.

## Foreign currency

Transactions in foreign currencies are recorded at the rates of exchange at the date the transactions occur. Amounts recognised in the SOCI are translation differences. Monetary assets and liabilities are restated at the prevailing exchange rate at each year end. Differences arising on restatement are included in the SOCI for the year.

## Leases

With effect from 1 April 2019 the Group has adopted IFRS 16, Leases which supersedes IAS 17: Leases, IFRIC 4: Determining Whether an Arrangement Contains a Lease, SIC 15: Operating Leases – Incentives and SIC 27: Evaluating the Substance of Transactions in the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

The Group has applied a modified retrospective approach when transitioning to the new standard. Under this approach, the standard is applied retrospectively and the cumulative effect of initial application of the standard is recognised at the date of adoption, and no restatements have been made in respect of prior periods, as the modified retrospective method eliminates the need to restate comparative information on transition.

## Accounting Policies continued

### Leases continued

#### **Policy applicable before 1 April 2019**

Operating lease rentals are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

#### **Policy applicable from 1 April 2019**

At inception of a contract the Group assesses whether a contract is, or contains, a lease. 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. This policy is applied to contracts entered into, or modified on or after 1 April 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone price. However, for leases of land and buildings in which it is a lessee, the Group has elected not to segregate non-lease components and account for the lease and non-lease components as a single lease component.

#### **Definition of a lease**

Previously the Group determined at inception whether an arrangement is, or contains a lease under IFRIC 4. Under IFRS16, the Group assesses whether a contract is or contains a lease based on the definition of a lease.

On transition, the Group performed a review of all major contracts to determine whether any contracts not defined as a lease under IAS17 and IFRIC 4, should be reassessed as a lease under IFRS16. After a comprehensive contract review the Group determined that there were no contracts not defined as a lease under IAS17 and IFRIC 4 that should be redefined as a lease under IFRS16.

#### **As a lessee**

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group.

Under IFRS16 the Group recognises a right-of-use-asset (ROUA) and a lease liability (LL) at the lease commencement date. The right-of-use-asset is initially measured at cost, which comprises:

- The amount of the initial measurement of the LL;
- Any lease payments made at or before the commencement date, less any lease incentives;
- Any initial direct cost incurred by the lessee;
- An estimate of costs to be incurred by the lessee in restoring the site on which the assets are located.

The right-of-use-asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use-asset is periodically tested for impairment (see 'Impairment of property, plant and equipment and intangibles' accounting policy), and adjusted for certain remeasurements of the lease liability.

At transition, right-of-use-assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments including in substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise an option, and penalties for early termination unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change of index or rate, if there is a change in future lease payments arising from a change in the Group's estimate of the amount payable under a residual value guarantee, if there is a change in lease term, or if the Group changes its assessment of whether it will exercise a purchase extension or termination option.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 April 2019.

#### **Practical expedients taken**

The Group used the following practical expedients when applying IFRS16 to leases previously classified as operating leases under IAS17.

- Applied a single discount rate for a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with a lease term that ends within 12 months of the date of initial application.
- Excluded initial direct costs from measuring the right-of-use-assets and liabilities at the date of initial application.
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

### Short term leases and leases of low value assets

The Group has elected not to recognise right-of-use-assets and lease liabilities for short term leases of plant & machinery that have a lease term of 12 months or less and leases of low value assets of less than £5,000 (being mainly storage space). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

### Under IAS17

In the comparative period, as a lessee the leases were operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the lease expense, over the term of the lease.

### As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interest in the head lease and sub-lease separately. It assesses the lease classification of the sub-lease with reference to the right-of-use-asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains a lease and a non-lease component, the Group applies IFRS15 to allocate the consideration in the contract.

As at the transition date the Group did not act as a lessor. In November 2019 the Group sub-let a portion of an office building that it occupied under a lease commenced in February 2018. Under IFRS16, the Group is required to assess the classification of the sub-lease with reference to the right-of-use-asset and not the underlying asset.

The Group applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

### Impact on Financial Statements

On transition to IFRS16, the Group recognised and presented separately on the balance sheet £125k of right-of-use-assets and £125k lease liabilities. The modified retrospective method applied by the Group eliminated the need to restate this comparative information upon transition.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 April 2019. The weighted average applied rate is 5.25 per cent. The Incremental Borrowing Rate was calculated based upon an indicative borrowing rate from our bankers. In arriving at the rate charged due account was taken of the Groups current lack of borrowing, and the fact that the vast majority of the assets under lease were property.

### Reconciliation of Prior Year Operating Lease Commitments to Lease Liabilities

| Description   | Land and Buildings<br>£'000 | Plant & Equipment<br>£'000 | Total<br>£'000 |
|---|-----------------------------|----------------------------|----------------|
| Operating Lease commitments at 31 March 2019 as disclosed in the Group's Consolidated financial statements  | 127                         | 119                        | 246            |
| Discount using the incremental borrowing rate as at 31 March 2019   | (6)                         | (3)                        | (9)            |
| Discounted using the incremental borrowing rate as at 31 March 2019   | 121                         | 116                        | 237            |
| Lease payments made pre March 2019 relating to post March 2019 Period   | (4)                         | –                          | (4)            |
| Commitments recorded as at 31 March 2019 for which underlying assets and leases became active during year ended 31 March 2020, so included within additions in the year | –                           | (94)                       | (94)           |
| Maintenance Costs in Lease commitments  | –                           | (6)                        | (6)            |
| Short term leases   | –                           | (8)                        | (8)            |
| Lease Liabilities recognised as at 1 April 2019   | 117                         | 8                          | 125            |

## Accounting Policies continued

### Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and accounting purposes.

Current tax is the expected tax payable on the taxable result for the year using tax rules enacted or substantively enacted at the year end, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The following temporary differences are not provided for: when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transition, affects neither the accounting profit nor taxable profit or loss. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the year end and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Taxation is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

### Dividends

In accordance with IAS 10 Events After the Reporting Period, dividends are recognised in the financial statements in the period in which they are approved by shareholders in the case of the final dividends and when paid in the case of the interim dividends.

### Key judgements and estimates

The preparation of financial statements in conformity with IFRS requires the use of estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

### Judgements

In applying the accounting policies, management has made the following judgements:

#### Pensions

The Group has two defined benefit pension schemes, as described in note 20, where the fair value of plan assets exceeds the present value of the scheme liabilities. The Group has determined, based on an evaluation of the rules of each of the pension schemes and legal advice, that it has a right to a refund during the life of the plan or when the plan is settled, that is not conditional upon factors beyond the entity's control.

#### Revenue

In applying the principles of IFRS15, management have considered whether the Group is a principal or agent when it supplies multi-retailer redemption products. Having assessed the nature of the Group's contractual relationships with retailers, the directors have concluded that the Group acts as an agent in exchange for a service fee as it does not control the transfer of goods or services by the retailer to the product holder upon redemption. This results in 'net' revenue recognition as described in the revenue recognition accounting policy.

For cardholder fees and breakage associated with multi-retailer redemption products, the Group acts as a principal in its contractual relationship with the product holders. This results in 'gross' revenue recognition as described in the revenue recognition accounting policy.

Under IFRS15, entities are required to disclose disaggregated revenue information to illustrate how the nature, amount, timing and uncertainty about revenue and cash flows are affected by economic factors. Management have considered this requirement and have disclosed information with regard to type of good or service, market or type of customer, timing of transfer of goods or services and geographical region. Management believe that this level of disaggregation is sufficient to satisfy the disclosure requirements of the standard.

#### Unredeemed cards

The directors have assessed the features of the Group's multi-retailer redemption products and concluded that unredeemed balances on corporate gifted cards do not meet the definition of a financial liability within the scope of IFRS9. This is because the cards have expiry dates after which the card cannot be redeemed. The cards can also be redeemed with the Group for certain goods or services and cannot be redeemed in cash. As a result, the liabilities relating to these products are not within the scope of IFRS9 and are instead measured in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets (note 18).



### Land and buildings

An assessment was made whether the property asset at Valley Road was an asset held for sale at 30 September 2019. As the sale of the property was considered to be highly probable within 12 months, the property was classified as an asset held for sale. At 31 March 2020, a reassessment of this position took place and all of the criteria were met for the property to continue to be classed as an asset held for sale. This assessment included an exception to the one-year rule being taken under IFRS 5.9, as the Covid-19 pandemic had delayed the sale of the asset.

### Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has one lease contract that includes extension and termination options. This is the new lease of floor 3 and 4, 20 Chapel Street Liverpool. The Group included the renewal period as part of the lease term, as in the year the Group has relocated the majority of its operations to the newly leased site in Liverpool City Centre. As a result of this, the lease extension is reasonably certain to be exercised.

### Estimates

The key assumptions and other sources of estimation uncertainty at the reporting date are described below:

#### Provisions for unredeemed vouchers and cards

A provision is made in respect of unredeemed vouchers and cards, as described in note 18. The provision is calculated by estimating anticipated amounts payable to retailers on redemption and the expected timing of payments. Historical data over a number of years and current trends are regularly reviewed and are used to prepare these estimates. Any differences to the estimates may necessitate a material adjustment to the level of the provision held in the statement of financial position. Management have considered the sensitivities of the key estimates and do not foresee that any likely change in these estimates will have a material impact on the size of the provision.

In the updated base case scenario, card and vouchers redemptions are assumed to decrease against the prior year redemptions for the same period by 50 per cent in Q1, 30 per cent in Q2, and then catch up to cumulative normal levels in Q3 and Q4, making up the Q1 and Q2 shortfall.

Post year end redemptions for the first quarter of the financial year ended 31 March 2021 have been lower than the 50 per cent decrease on prior year levels forecasted by the Group. The actual decrease in voucher redemptions was 80 per cent, and the actual decrease in card redemptions was 62 per cent, when compared to the corresponding quarter in the prior year. However, as redemptions are continuing to increase, and given that the base case scenario assumes a catch up by the end of the financial year, any impact of this would be negligible.

#### Breakage

For multi-retailer redemption products where the end user has no right of redemption (corporate gifted cards), the Group may expect to earn a breakage amount. In order to calculate the expected breakage amount, the Group estimates how many products will be fully redeemed and how many will be partially redeemed. For those which are partially redeemed, the Group estimates projected balances remaining on the products at expiry. Historical data and current trends regarding patterns of redemption and expiry are used to prepare the estimates. As redemption behaviour may differ by market, historical data and current trends are reviewed at this level. If the expected level of breakage were to change by 0.1 per cent, the impact on revenue for the reporting period would be £0.2m. Management have considered the sensitivity of this estimate and do not foresee that any likely change to the estimate will have a material impact on either the level of deferred income held in the statement of financial position or the amount of revenue for the reporting period.

#### Deferred income – Love2shop voucher redemption timing

As described in note 17, revenue for multi-retailer redemption products is recognised in proportion to actual redemption timing, generating deferred income balances until the point of redemption. For Love2shop vouchers, there is a time delay between the point of redemption and when they are physically returned to the Group for validation and accounting purposes. To negate the effects of this delay, an adjustment is made at the end of the reporting period, which estimates the value of vouchers already redeemed but not yet returned to the Group and records the associated revenue. Historical data over a number of years and current trends are used to prepare the estimate. Management have considered the sensitivity of this estimate and do not foresee that any likely change to the estimate will have a material impact on either the level of deferred income held in the statement of financial position or the amount of revenue for the reporting period.

#### Assets held for sale – Value of Valley Road site

A valuation was carried out as at 31 March 2020 in order to determine the fair value less costs to sell of the Valley Road site. This valuation was carried out on a vacant possession basis. This valuation resulted in the value of the asset being written down to £3,153k. Any differences to this estimate may necessitate a material adjustment to the value of the assets held for sale in the statement of financial position.

## Accounting Policies continued

### Key judgements and estimates continued

#### Goodwill

Goodwill arising on acquisition represents the difference between the consideration and the fair value of net assets acquired. Goodwill is not amortised, but is reviewed annually for impairment and whenever events or changes in circumstances indicate that the carrying value of the goodwill may not be recoverable. The impairment review relies on a number of assumptions (see note 6 for details). Any differences to the assumptions made may necessitate a material adjustment to the level of goodwill held in the statement of financial position.

#### Other intangible Assets

At each reporting date the Group reviews the carrying value of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss (see note 7 for details). The assessment of costs capitalised as intangible assets to generate future economic benefits: Judgement is applied in assessing whether costs incurred, both internal and external, will generate future economic benefits. Significant judgements and estimates are applied in determining the carrying value of the assets, including assumptions made in respect of the status of the programme each asset relates to, and there may be a range of possible outcomes when a programme is complex.

#### Incremental borrowing rate (IBR)

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. This rate was determined to be 5.25 per cent.

## Notes to the Accounts

### 1 Segmental reporting

The Group's operations are divided into two principal operating segments:

- Consumer – which represents sales to consumers, utilising the Group's Christmas savings offering and our website, [highstreetvouchers.com](http://highstreetvouchers.com); and
- Corporate – comprising sales to businesses, offering primarily sales of the Love2shop voucher, flexecash® cards, Mastercards and e-codes in addition to other retailer vouchers.

All other segments are those items relating to the corporate activities of the Group which it is felt cannot be reasonably allocated to either business segment.

The amount included within the elimination column reflects products sold by the corporate segment to the consumer segment. They have been included in elimination so as to show the total revenue for both segments.

Finance income, finance costs and taxation are not allocated to individual segments as they are managed on a Group basis.

The Group operates in only one geographical segment, being the UK. The Group's operations in Ireland were immaterial to the results and assets of the Group for the year ended 31 March 2020.

| 2020                            | Consumer<br>£'000 | Corporate<br>£'000 | All other<br>segments<br>£'000 | Elimination<br>£'000 | Group<br>£'000 |
|---------------------------------|-------------------|--------------------|--------------------------------|----------------------|----------------|
| <b>Billings</b>                 |                   |                    |                                |                      |                |
| External billings               | 222,207           | 197,650            |                                |                      | 419,857        |
| Inter-segment billings          | –                 | 171,933            |                                | (171,933)            | –              |
| Total billings                  | 222,207           | 369,583            | –                              | (171,933)            | 419,857        |
| <b>Revenue</b>                  |                   |                    |                                |                      |                |
| External revenue                | 62,447            | 50,277             |                                |                      | 112,724        |
| Inter-segment revenue           | –                 | 22,797             |                                | (22,797)             | –              |
| Total revenue                   | 62,447            | 73,074             | –                              | (22,797)             | 112,724        |
| <b>Results</b>                  |                   |                    |                                |                      |                |
| Segment operating profit/(loss) | 5,327             | 6,581              | (5,512)                        |                      | 6,396          |
| Finance income                  |                   |                    |                                |                      | 1,481          |
| Finance costs                   |                   |                    |                                |                      | (177)          |
| Profit before taxation          |                   |                    |                                |                      | 7,700          |
| Taxation                        |                   |                    |                                |                      | (2,189)        |
| Profit                          |                   |                    |                                |                      | 5,511          |

All other segments loss comprises primarily of staff costs and professional fees.

In arriving at segment operating profit/(loss) exceptional costs have been charged to the segments as follows:

|                                | Consumer<br>£'000 | Corporate<br>£'000 | All other<br>segments<br>£'000 | Group<br>£'000 |
|--------------------------------|-------------------|--------------------|--------------------------------|----------------|
| Impairment of obsolete stock   | 124               | –                  | –                              | 124            |
| Impairment of goodwill         | 434               | 882                | –                              | 1,316          |
| Redundancy costs               | 224               | 199                | –                              | 423            |
| Impairment of Valley Road Site | –                 | –                  | 1,813                          | 1,813          |

An analysis of the Group's external revenue is as follows:

|   | Consumer<br>£'000 | Corporate<br>£'000 | Group<br>£'000 |
|---|-------------------|--------------------|----------------|
| <b>Revenue from contracts with customers</b>  |                   |                    |                |
| Goods – Single retailer redemption products   | 31,227            | 30,915             | 62,142         |
| Other goods                                   | 6,153             | 87                 | 6,240          |
| Services – Multi-retailer redemption products | 22,591            | 15,279             | 37,870         |
| Other services                                | 2,386             | 3,985              | 6,371          |
| Other   | 90                | 11                 | 101            |
|   | 62,447            | 50,277             | 112,724        |

The majority of revenue from contracts with customers is recognised at a point in time.

## Notes to the Accounts continued

### 1 Segmental reporting continued

For details of the Group's primary revenue streams, please see the revenue recognition accounting policy on pages 74 to 77.

The Group has elected not to report on segment assets and liabilities as this information is not provided to the Chief Operating Decision Maker (CODM) and is not relevant to the CODM's decision making. In respect of Appreciate Group plc the CODM is regarded as the executive members of the Board of directors. Since the last reporting period the Group no longer segments the Statement of Financial Position due to rationalisation of accounting processes.

| 2019                            | Consumer<br>£'000 | Corporate<br>£'000 | All other<br>segments<br>£'000 | Elimination<br>£'000 | Group<br>£'000 |
|---------------------------------|-------------------|--------------------|--------------------------------|----------------------|----------------|
| <b>Billings</b>                 |                   |                    |                                |                      |                |
| External billings               | 232,096           | 194,805            | –                              | –                    | 426,901        |
| Inter-segment billings          | –                 | 134,714            | –                              | (134,714)            | –              |
| Total billings                  | 232,096           | 329,519            | –                              | (134,714)            | 426,901        |
| <b>Revenue</b>                  |                   |                    |                                |                      |                |
| External revenue                | 58,886            | 51,508             | –                              | –                    | 110,394        |
| Inter-segment revenue           | –                 | 38,204             | –                              | (38,204)             | –              |
| Total revenue                   | 58,886            | 89,712             | –                              | (38,204)             | 110,394        |
| <b>Results</b>                  |                   |                    |                                |                      |                |
| Segment operating profit/(loss) | 6,809             | 7,789              | (4,866)                        |                      | 9,732          |
| Finance income                  |                   |                    |                                |                      | 1,572          |
| Finance costs                   |                   |                    |                                |                      | –              |
| Profit before taxation          |                   |                    |                                |                      | 11,304         |
| Taxation                        |                   |                    |                                |                      | (2,422)        |
| Profit                          |                   |                    |                                |                      | 8,882          |

All other segments loss comprises primarily of staff costs and professional fees.

|                                | Consumer<br>£'000 | Corporate<br>£'000 | All other<br>segments<br>£'000 | Group<br>£'000 |
|--------------------------------|-------------------|--------------------|--------------------------------|----------------|
| Impairment of Valley Road Site | –                 | –                  | 1,210                          | 1,210          |

An analysis of the Group's external revenue is as follows:

|   | Consumer<br>£'000 | Corporate<br>£'000 | Group<br>£'000 |
|---|-------------------|--------------------|----------------|
| <b>Revenue from contracts with customers</b>  |                   |                    |                |
| Goods – Single retailer redemption products   | 30,487            | 25,137             | 55,624         |
| Other goods                                   | 7,431             | 80                 | 7,511          |
| Services – Multi-retailer redemption products | 19,062            | 22,049             | 41,111         |
| Other services                                | 1,892             | 4,227              | 6,119          |
| Other   | 14                | 15                 | 29             |
|   | 58,886            | 51,508             | 110,394        |

The majority of revenue from contracts with customers is recognised at a point in time.

For details of the Group's primary revenue streams, please see the revenue recognition accounting policy on pages 74 to 77.

## 2 Profit before taxation

The following items have been included in arriving at profit before taxation:

|  | 2020<br>£'000 | 2019<br>£'000 |
|--|---------------|---------------|
| Staff costs (see note 21)  | 15,008        | 15,073        |
| Cost of inventories recognised as an expense (included in cost of sales)                   | 55,103        | 52,435        |
| Write down of inventories recognised as an expense (included in cost of sales)             | 95            | 49            |
| Exceptional write down of inventories recognised as an expense (included in cost of sales) | 124           | –             |
| Pension interest income  | (44)          | (73)          |
| Depreciation of property, plant and equipment  | 511           | 629           |
| Impairment of property, plant and equipment/assets held for sale (see notes 9 and 16)      | 1,813         | 1,210         |
| Amortisation of other intangibles (included in cost of sales and administrative expenses)  | 863           | 765           |
| Impairment of other intangibles  | 21            | –             |
| Depreciation of right of use assets (see note 19)  | 285           | –             |
| Impairment loss on goodwill (see note 6)   | 1,368         | 17            |
| Loss on sale of property, plant and equipment  | 4             | –             |
| Other operating leases payable:  |               |               |
| – plant and machinery  | –             | 40            |
| – property   | –             | 67            |
| Repairs and maintenance on property, plant and equipment                                   | 838           | 701           |

### Services provided by the Group's auditor

During the year the Group obtained the following services from the Company's auditor at costs as detailed below:

|  | 2020<br>£'000 | 2019<br>£'000 |
|--|---------------|---------------|
| Fees payable to the Company's auditor for the audit of:                      |               |               |
| – company's annual accounts  | 276           | 87            |
| – subsidiaries pursuant to legislation                                       | 399           | 157           |
| Fees payable to the Company's auditor and its associates for other services: |               |               |
| – other services pursuant to legislation                                     | 13            | 16            |
| – expenses   | 4             | 3             |
|  | 692           | 263           |

Fees paid for non-audit services to the Company itself are not disclosed in the individual accounts of Appreciate Group plc because the Company's consolidated accounts are required to disclose such fees on a consolidated basis.

## 3 Finance income and costs

|                              | 2020<br>£'000 | 2019<br>£'000 |
|------------------------------|---------------|---------------|
| Finance income:              |               |               |
| Bank interest receivable     | 1,479         | 1,571         |
| Other interest receivable    | 2             | 1             |
|                              | 1,481         | 1,572         |
| Finance costs:               |               |               |
| Lease interest (see note 19) | 177           | –             |



## Notes to the Accounts continued

### 4 Taxation

|   | 2020  |              | 2019  |              |
|---|-------|--------------|-------|--------------|
|   | £'000 | £'000        | £'000 | £'000        |
| <b>Analysis of profit or loss charge in period</b>                        |       |              |       |              |
| Current tax   | 1,966 |              | 1,503 |              |
| Adjustments to current tax in respect of prior periods                    | 52    |              | 11    |              |
|   |       | 2,018        |       | 1,514        |
| Deferred tax  | 180   |              | 895   |              |
| Adjustments to deferred tax in respect of prior periods                   | (9)   |              | 13    |              |
|   |       | 171          |       | 908          |
| <b>Taxation</b>   |       | <b>2,189</b> |       | <b>2,422</b> |
| <b>Tax charged/(credited) directly to other comprehensive income</b>      |       |              |       |              |
| Deferred tax on actuarial gains/(losses) on defined benefit pension plans |       | 383          |       | (172)        |
| <b>Tax charged directly to equity</b>                                     |       |              |       |              |
| Corporation tax on share options  |       | –            |       | (9)          |
| Deferred tax on share options   |       | 14           |       | 54           |
|   |       | 14           |       | 45           |

The tax for the period is higher (2019 : higher) than the standard rate of corporation tax in the UK of 19 per cent (2019 : 19 per cent). The differences are explained below:

|  | 2020<br>£'000 | 2019<br>£'000 |
|--|---------------|---------------|
| Profit on ordinary activities before tax                     | 7,700         | 11,304        |
| Expected tax charge at 19 per cent (2019 : 19 per cent)      | 1,463         | 2,148         |
| Effects of:  |               |               |
| Adjustments to tax in respect of prior periods               | 43            | 24            |
| Amounts not taxable/expenses not deductible for tax purposes | 567           | 198           |
| Tax in respect of share-based payments                       | 6             | 47            |
| Effect of rate change on current year deferred tax           | 110           | 5             |
| <b>Total taxation</b>  | <b>2,189</b>  | <b>2,422</b>  |

### 5 Earnings per share

Basic EPS is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

The calculation of basic and diluted EPS is based on the following figures:

|  | 2020<br>£'000      | 2019<br>£'000      |
|--|--------------------|--------------------|
| <b>Earnings</b>  |                    |                    |
| Profit for the year before exceptional items                   | 9,187              | 10,092             |
| Exceptional items  | (3,676)            | (1,210)            |
| <b>Profit for the year attributable to equity shareholders</b> | <b>5,511</b>       | <b>8,882</b>       |
|  | 2020               | 2019               |
| <b>Weighted average number of shares</b>                       |                    |                    |
| Basic EPS – weighted average number of shares                  | 186,347,228        | 185,964,433        |
| Diluting effect of employee share options and LTIP awards      | –                  | 112,540            |
| <b>Diluted EPS – weighted average number of shares</b>         | <b>186,347,228</b> | <b>186,076,973</b> |

650,337 shares have been considered anti-dilutive during the year, that could potentially dilute basic EPS in the future.

|   | 2020        | 2019        |
|---|-------------|-------------|
| <b>Basic EPS</b>                                    |             |             |
| Weighted average number of ordinary shares in issue | 186,347,228 | 185,964,433 |
| EPS (p)   | 2.96        | 4.78        |
| <b>Underlying basic EPS</b>                         |             |             |
| Weighted average number of ordinary shares in issue | 186,347,228 | 185,964,433 |
| EPS (p)   | 4.93        | 5.43        |
|   | 2020        | 2019        |
| <b>Diluted EPS</b>                                  |             |             |
| Weighted average number of ordinary shares          | 186,347,228 | 186,076,973 |
| EPS (p)   | 2.96        | 4.77        |
| <b>Underlying diluted EPS</b>                       |             |             |
| Weighted average number of ordinary shares          | 186,347,228 | 186,076,973 |
| EPS (p)   | 4.93        | 5.42        |

## 6 Goodwill Group

|                                  | £'000 |
|----------------------------------|-------|
| <b>Cost – Actual or deemed</b>   |       |
| <b>At 31 March 2019 and 2020</b> | 5,048 |
| <b>Impairment</b>                |       |
| At 1 April 2019                  | 2,880 |
| Impairment in year               | 1,368 |
| <b>At 31 March 2020</b>          | 4,248 |
| <b>Net book amount</b>           |       |
| <b>At 31 March 2020</b>          | 800   |
| At 31 March 2019                 | 2,168 |
|                                  | £'000 |
| <b>Cost – Actual or deemed</b>   |       |
| At 31 March 2018 and 2019        | 5,048 |
| <b>Impairment</b>                |       |
| At 1 April 2018                  | 2,863 |
| Impairment in year               | 17    |
| At 31 March 2019                 | 2,880 |
| <b>Net book amount</b>           |       |
| At 31 March 2019                 | 2,168 |
| At 31 March 2018                 | 2,185 |

### Goodwill allocation to CGUs

Goodwill is allocated to the following CGUs and is tested for impairment at this level:

| CGUs                   | Goodwill<br>at 1 April 2019<br>£'000 | Additions<br>£'000 | Impairment<br>£'000 | Goodwill<br>at 31 March<br>2020<br>£'000 |
|------------------------|--------------------------------------|--------------------|---------------------|--|
| Consumer               | 1,286                                | –                  | (486)               | 800                                      |
| Corporate              | 882                                  | –                  | (882)               | –  |
| <b>Net book amount</b> | 2,168                                | –                  | (1,368)             | 800                                      |

## Notes to the Accounts continued

### 6 Goodwill continued

The Group tests annually for impairment of goodwill. The recoverable amounts of CGUs are determined using value in use calculations, which are considered higher than the fair value less costs to sell.

#### **Consumer – Family (£739,000) & Country Hampers Franchisee (£61,000)**

The key data and assumptions in the value in use calculations were as follows:

- The final order position for the previous Christmas.
- The base case scenario gross margins. These margins are forecast to be maintained going forward.
- Average agent retentions forecast. These are based on historical performance of agent retention achieved. Historically, such forecasts have been materially correct. An additional 12 per cent fall in retention has been factored into the forecast for the year ended 31 March 2021 to reflect the current trading environment (an 11 per cent fall in retention per year is typically used, which has been increased to 23 per cent for the year ended 31 March 2021).
- Base case scenario revenue. This is based on average historical order value and average agent retention rates which have been extrapolated forward 10 years. The generally high retention values for customers supports the adoption of a 10 year customer life cycle value as being appropriate for the business. No revenue growth has been factored into the data used in the calculation (2019 : nil).

The resulting cash flows were discounted using a pre-tax discount rate of 16.54 per cent (2019 : 6.25 per cent).

The impairment in the year of £434,000 (2019: nil) against the Family Franchisee goodwill represents the impact of excluding hamper contribution from the value in use calculations combined with a higher pre-tax discount rate. This is included within exceptional costs in the Consumer segment.

A sensitivity analysis was performed where changes in key assumptions were tested, those being changes in pre-tax discount rate and retention of agents.

An increase in pre-tax discount rate of 1 per cent would lead to further impairment of an additional £23,000. A decrease in retentions of 1 per cent (to 78 per cent for the year ended 31 March 2021 and 88 per cent per year after this) would lead to further impairment of an additional £32,000.

The impairment in the year of £52,000 (2019: £17,000) against the Country Hampers Franchisee goodwill represents the reduction in agents that were originally acquired from Country Hampers. This is included within administrative expenses.

#### **Corporate – Fisher Moy International (£nil)**

The key assumptions in the value in use calculations were as follows:

- Forecast revenue. This is based on the current order book, average customer retention and expected new business, which has been extrapolated forward 10 years. This has been sensitised to consider the worst-case scenario impact of Covid-19. No revenue growth has been factored into the calculation.
- Forecast gross margins. These are based on forecasts of profit resulting from forecast revenue, which have been sensitised to consider the worst-case scenario impact of the Covid-19 pandemic on the business for the coming year. These margins have then been forecast to be maintained going forward.

The resulting cash flows were discounted using a pre-tax discount rate of 16.54 per cent (2019 : 6.25 per cent).

Management have carefully considered the base case forecast, the worst case sensitivities, the customer base (which consists of one dominant customer) and the entity specific circumstances relating to its industry.

In light of these considerations, there has been an impairment in the year of £882,000, which reduces the Corporate goodwill to a value of £nil (2019: £882,000). This is recognised as an exceptional item in the year ended 31 March 2020.

## 7 Other intangible assets Group

|   | Computer<br>software<br>£'000 | Agency<br>customer<br>lists<br>£'000 | Total<br>£'000 |
|---|-------------------------------|--------------------------------------|----------------|
| <b>Cost</b>                             |                               |                                      |                |
| At 1 April 2019                         | 9,274                         | 2,350                                | 11,624         |
| Additions – internally developed assets | 891                           | –                                    | 891            |
| Additions – externally purchased assets | 2,455                         | –                                    | 2,455          |
| Disposals                               | (78)                          | –                                    | (78)           |
| <b>At 31 March 2020</b>                 | <b>12,542</b>                 | <b>2,350</b>                         | <b>14,892</b>  |
| <b>Amortisation and impairment</b>      |                               |                                      |                |
| At 1 April 2019                         | 7,058                         | 2,271                                | 9,329          |
| Amortisation charge for the year        | 827                           | 36                                   | 863            |
| Impairment                              | –                             | 21                                   | 21             |
| Disposals                               | (78)                          | –                                    | (78)           |
| <b>At 31 March 2020</b>                 | <b>7,807</b>                  | <b>2,328</b>                         | <b>10,135</b>  |
| <b>Net book amount</b>                  |                               |                                      |                |
| <b>At 31 March 2020</b>                 | <b>4,735</b>                  | <b>22</b>                            | <b>4,757</b>   |
| At 31 March 2019                        | 2,216                         | 79                                   | 2,295          |

The additions during the year includes £2,367,000 related to Project 2020 which is an Enterprise Resource Planning (ERP) system which will be the cornerstone of the business to build on utilising new, cloud-based technology. It is expected that amortisation will commence in the year ending 31 March 2021 as this is when it is expected the asset will commence deriving economic benefit.

The impairment charged during the year relates to the assessment of the value in use of the agency customer lists and takes into consideration the projected retention rates of those customers.

|   | Computer<br>software<br>£'000 | Agency<br>customer<br>lists<br>£'000 | Total<br>£'000 |
|---|-------------------------------|--------------------------------------|----------------|
| <b>Cost</b>                             |                               |                                      |                |
| At 1 April 2018                         | 9,525                         | 2,350                                | 11,875         |
| Additions – internally developed assets | 429                           | –                                    | 429            |
| Additions – externally purchased assets | 353                           | –                                    | 353            |
| Disposals                               | (1,033)                       | –                                    | (1,033)        |
| At 31 March 2019                        | 9,274                         | 2,350                                | 11,624         |
| <b>Amortisation and impairment</b>      |                               |                                      |                |
| At 1 April 2018                         | 7,366                         | 2,231                                | 9,597          |
| Amortisation charge for the year        | 725                           | 40                                   | 765            |
| Disposals                               | (1,033)                       | –                                    | (1,033)        |
| At 31 March 2019                        | 7,058                         | 2,271                                | 9,329          |
| <b>Net book amount</b>                  |                               |                                      |                |
| At 31 March 2019                        | 2,216                         | 79                                   | 2,295          |
| At 31 March 2018                        | 2,159                         | 119                                  | 2,278          |

## Notes to the Accounts continued

### 7 Other intangible assets continued

The agency customer lists relate to lists of 30,000 agents nationwide acquired from FHSC Limited on 15 February 2006, 7,500 agents nationwide acquired from Findel PLC on 7 March 2007, 4,000 agents in the Republic of Ireland acquired from Dublin based Celtic Hampers and Family Hampers on 25 October 2010 and 388 agents nationwide acquired from I and J L Brown Limited, who operated a Country Christmas Savings Club franchise, on 3 December 2012. Customer lists are amortised over their useful life of up to 10 years based on the pattern of forecast cash flows expected to be generated. On an annual basis, management review the expected cash flows to be generated and make appropriate provision for impairment, if necessary.

#### Company

|                                    | Computer<br>software<br>£'000 |
|------------------------------------|-------------------------------|
| <b>Cost</b>                        |                               |
| <b>At 31 March 2019 and 2020</b>   | <b>2,289</b>                  |
| <b>Amortisation and impairment</b> |                               |
| At 1 April 2019                    | 2,219                         |
| Amortisation charge for the year   | 26                            |
| <b>At 31 March 2020</b>            | <b>2,245</b>                  |
| <b>Net book amount</b>             |                               |
| <b>At 31 March 2020</b>            | <b>44</b>                     |
| At 31 March 2019                   | 70                            |
| <b>Cost</b>                        |                               |
| At 1 April 2018                    | 2,330                         |
| Additions                          | 26                            |
| Disposals                          | (67)                          |
| At 31 March 2019                   | 2,289                         |
| <b>Amortisation and impairment</b> |                               |
| At 1 April 2018                    | 2,260                         |
| Amortisation charge for the year   | 26                            |
| Disposals                          | (67)                          |
| At 31 March 2019                   | 2,219                         |
| <b>Net book amount</b>             |                               |
| At 31 March 2019                   | 70                            |
| At 31 March 2018                   | 70                            |

### 8 Investments

#### Company

|                                  | Shares in<br>subsidiary<br>undertakings<br>£'000 |
|----------------------------------|--|
| <b>Cost</b>                      |  |
| <b>At 31 March 2019 and 2020</b> | <b>9,465</b>                                     |
| <b>Provisions</b>                |  |
| At 1 April 2019                  | 561  |
| Increase in year                 | 923  |
| <b>At 31 March 2020</b>          | <b>1,484</b>                                     |
| <b>Net book amount</b>           |  |
| <b>At 31 March 2020</b>          | <b>7,981</b>                                     |
| At 31 March 2019                 | 8,904  |

As described in note 6, in respect of the Company's investment in Fisher Moy International Limited, we have carefully considered the base case forecast, the worst case sensitivities, the customer base (which consists of one dominant customer) and the entity specific circumstances relating to its industry. As a result of this the Company's investment is impaired in the current year by £923,000 (2019 : £nil).

At 31 March 2020 the parent Company's subsidiary undertakings included in the consolidation were:

| Name of company                                     | Nature of business   |
|---|--|
| Park Group UK Limited <sup>1</sup>                  | Holding company  |
| Park Retail Limited <sup>2</sup>                    | Gifting and prepayment                                     |
| Fisher Moy International Limited <sup>1</sup>       | Brand engagement   |
| Budworth Properties Limited <sup>2</sup>            | Property management (see note 28)                          |
| Park Direct Credit Limited <sup>2</sup>             | Debt collection services (no longer active)                |
| Park Financial Services Limited <sup>2</sup>        | Insurance broking services (no longer active)              |
| Park Card Services Limited <sup>1</sup>             | Electronic money issuer                                    |
| Park Card Marketing Services Limited <sup>1</sup>   | Card administration support services                       |
| Country Christmas Savings Club Limited <sup>2</sup> | Dormant company – trading name used by Park Retail Limited |
| Family Christmas Savings Club Limited <sup>1</sup>  | Dormant company – trading name used by Park Retail Limited |
| Handling Solutions Limited <sup>2</sup>             | Dormant company – trading name used by Park Retail Limited |
| High Street Vouchers Limited <sup>2</sup>           | Dormant company – trading name used by Park Retail Limited |
| Park Christmas Savings Club Limited <sup>2</sup>    | Dormant company – trading name used by Park Retail Limited |
| Park Travel Service Limited <sup>1</sup>            | Dormant company – trading name used by Park Retail Limited |
| Agency Administration Limited <sup>2</sup>          | Dormant company  |
| Appreciate Group Limited <sup>2</sup>               | Dormant company  |
| Brightdot Limited <sup>3</sup>                      | Dormant company  |
| Cheshire Bank Limited <sup>2</sup>                  | Dormant company  |
| Cheshire Securities Limited <sup>2</sup>            | Dormant company  |
| Family Hampers Limited <sup>1</sup>                 | Dormant company  |
| Heritage Hampers Limited <sup>2</sup>               | Dormant company  |
| MaximB2B Limited <sup>3</sup>                       | Dormant company  |
| Opal Loans Limited <sup>4</sup>                     | Dormant company  |
| Park Connect Limited <sup>5</sup>                   | Dormant company  |
| Park Food (Warrington) Limited <sup>1</sup>         | Dormant company  |
| Park Group Secretaries Limited <sup>1</sup>         | Dormant company  |
| Park Hamper Company Limited <sup>1</sup>            | Dormant company  |
| Park.com Limited <sup>1</sup>                       | Dormant company  |
| The Perfect Hamper Co. Limited <sup>2</sup>         | Dormant company  |
| Wirral Cold Store Limited <sup>2</sup>              | Dormant company  |

1 Wholly owned subsidiary undertakings of Appreciate Group plc

2 Wholly owned subsidiary undertakings of Park Group UK Limited

3 Wholly owned subsidiary undertakings of Park Retail Limited

4 Park Group UK Limited direct holding represents 70 per cent and subsidiary undertakings direct holdings represent 30 per cent of issued share capital

5 Appreciate Group plc direct holding represents 1 per cent and Park Group UK Limited direct holdings represent 99 per cent of issued share capital

All of the above companies are registered in England. Details of the registered office for all companies are given on the inside back cover.



## Notes to the Accounts continued

### 9 Property, plant and equipment Group

|                                  | Land and<br>buildings<br>£'000 | Leasehold<br>improvements<br>£'000 | Fixtures and<br>equipment<br>£'000 | Vehicles<br>£'000 | Total<br>£'000 |
|----------------------------------|--------------------------------|------------------------------------|------------------------------------|-------------------|----------------|
| <b>Cost or valuation</b>         |                                |                                    |                                    |                   |                |
| At 1 April 2019                  | 15,636                         | –                                  | 3,996                              | 20                | 19,652         |
| Additions at cost                | –                              | 1,649                              | 279                                | –                 | 1,928          |
| Transfer to Assets Held for Sale | (14,531)                       | –                                  | –                                  | –                 | (14,531)       |
| Disposals                        | –                              | –                                  | (33)                               | –                 | (33)           |
| <b>At 31 March 2020</b>          | <b>1,105</b>                   | <b>1,649</b>                       | <b>4,242</b>                       | <b>20</b>         | <b>7,016</b>   |
| <b>Accumulated depreciation</b>  |                                |                                    |                                    |                   |                |
| At 1 April 2019                  | 10,620                         | –                                  | 2,799                              | 17                | 13,436         |
| Charge in year                   | 50                             | 57                                 | 403                                | 1                 | 511            |
| Impairment                       | 163                            | –                                  | –                                  | –                 | 163            |
| Transfer to Assets Held for Sale | (9,728)                        | –                                  | –                                  | –                 | (9,728)        |
| Disposals                        | –                              | –                                  | (28)                               | –                 | (28)           |
| <b>At 31 March 2020</b>          | <b>1,105</b>                   | <b>57</b>                          | <b>3,174</b>                       | <b>18</b>         | <b>4,354</b>   |
| <b>Net book amount</b>           |                                |                                    |                                    |                   |                |
| <b>At 31 March 2020</b>          | <b>–</b>                       | <b>1,592</b>                       | <b>1,068</b>                       | <b>2</b>          | <b>2,662</b>   |
| At 31 March 2019                 | 5,016                          | –                                  | 1,197                              | 3                 | 6,216          |
| <b>Cost or valuation</b>         |                                |                                    |                                    |                   |                |
| At 1 April 2018                  | 15,636                         | –                                  | 8,261                              | 20                | 23,917         |
| Additions at cost                | –                              | –                                  | 371                                | –                 | 371            |
| Disposals                        | –                              | –                                  | (4,636)                            | –                 | (4,636)        |
| At 31 March 2019                 | 15,636                         | –                                  | 3,996                              | 20                | 19,652         |
| <b>Accumulated depreciation</b>  |                                |                                    |                                    |                   |                |
| At 1 April 2018                  | 9,176                          | –                                  | 7,041                              | 16                | 16,233         |
| Charge in year                   | 234                            | –                                  | 394                                | 1                 | 629            |
| Impairment                       | 1,210                          | –                                  | –                                  | –                 | 1,210          |
| Disposals                        | –                              | –                                  | (4,636)                            | –                 | (4,636)        |
| At 31 March 2019                 | 10,620                         | –                                  | 2,799                              | 17                | 13,436         |
| <b>Net book amount</b>           |                                |                                    |                                    |                   |                |
| At 31 March 2019                 | 5,016                          | –                                  | 1,197                              | 3                 | 6,216          |
| At 31 March 2018                 | 6,460                          | –                                  | 1,220                              | 4                 | 7,684          |

At 30 September 2019, an assessment was made as to whether the Valley Road property was an Asset held for sale. All of the criteria were met, and the property was transferred from Property, plant and equipment to Assets held for sale (see note 16). Prior to the transfer to Assets held for sale the property was impaired by £163,000.

During the year, the Group relocated its head office to Liverpool city centre. There were several additions to Property, plant and equipment which relate to fit-out costs and equipment purchased for the new office. These have been classed as leasehold improvements.

### Company

|                                 | Land and<br>buildings<br>£'000 | Leasehold<br>improvements | Fixtures and<br>equipment<br>£'000 | Total<br>£'000 |
|---------------------------------|--------------------------------|---------------------------|------------------------------------|----------------|
| <b>Cost or valuation</b>        |                                |                           |                                    |                |
| At 1 April 2019                 | 31                             | –                         | 2,059                              | 2,090          |
| Additions at cost               | –                              | –                         | 28                                 | 28             |
| <b>At 31 March 2020</b>         | <b>31</b>                      | <b>–</b>                  | <b>2,087</b>                       | <b>2,118</b>   |
| <b>Accumulated depreciation</b> |                                |                           |                                    |                |
| At 1 April 2019                 | 31                             | –                         | 1,528                              | 1,559          |
| Charge in year                  | –                              | –                         | 209                                | 209            |
| <b>At 31 March 2020</b>         | <b>31</b>                      | <b>–</b>                  | <b>1,737</b>                       | <b>1,768</b>   |
| <b>Net book amount</b>          |                                |                           |                                    |                |
| <b>At 31 March 2020</b>         | <b>–</b>                       | <b>–</b>                  | <b>350</b>                         | <b>350</b>     |
| At 31 March 2019                | –                              | –                         | 531                                | 531            |
| <b>Cost or valuation</b>        |                                |                           |                                    |                |
| At 1 April 2018                 | 31                             | –                         | 5,646                              | 5,677          |
| Additions at cost               | –                              | –                         | 211                                | 211            |
| Disposals                       | –                              | –                         | (3,798)                            | (3,798)        |
| At 31 March 2019                | 31                             | –                         | 2,059                              | 2,090          |
| <b>Accumulated depreciation</b> |                                |                           |                                    |                |
| At 1 April 2018                 | 31                             | –                         | 5,092                              | 5,123          |
| Charge in year                  | –                              | –                         | 234                                | 234            |
| Disposals                       | –                              | –                         | (3,798)                            | (3,798)        |
| At 31 March 2019                | 31                             | –                         | 1,528                              | 1,559          |
| <b>Net book amount</b>          |                                |                           |                                    |                |
| At 31 March 2019                | –                              | –                         | 531                                | 531            |
| At 31 March 2018                | –                              | –                         | 554                                | 554            |

### 10 Deferred tax Group

|                                   | 2020<br>£'000  | 2019<br>£'000 |
|-----------------------------------|----------------|---------------|
| Deferred tax asset                | 10             | 28            |
| Deferred tax liability            | (1,131)        | (581)         |
| <b>Net deferred tax liability</b> | <b>(1,121)</b> | <b>(553)</b>  |

IAS 12 Income Taxes requires the offset of deferred tax balances meeting the offset criteria in the standard. All deferred tax liabilities were available for offset against deferred tax assets.

The rate of corporation tax was reduced to 19 per cent from 1 April 2017 in the Budget of July 2015 and the rate change was substantively enacted on 26 October 2015. It was reduced to 17 per cent from 1 April 2020 in the Budget of March 2016 and this rate change was substantively enacted on 6 September 2016. However in the Spring Budget of March 2020 the government announced that the rate would remain at 19 per cent and this rate change was substantively enacted on 17 March 2020. Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19 per cent (2019 : 19 per cent or 17 per cent depending on when the temporary differences were expected to reverse).

## Notes to the Accounts continued

### 10 Deferred tax continued

The movement on the deferred tax account is shown below:

|   | 2020<br>£'000  | 2019<br>£'000 |
|---|----------------|---------------|
| At 1 April  | (553)          | 237           |
| Profit or loss charge                             | (171)          | (908)         |
| Statement of comprehensive income (charge)/credit | (383)          | 172           |
| Amounts charged directly to equity                | (14)           | (54)          |
| <b>At 31 March</b>                                | <b>(1,121)</b> | <b>(553)</b>  |

Deferred tax assets have been recognised in respect of other temporary differences giving rise to deferred tax assets where it is probable that these assets will be recovered. Deferred tax assets have not been provided on brought forward trading losses of £20,624,000 (2019 : £20,624,000) and on capital losses of £2,038,000 (2019 : £2,038,000) as, at the year end, the Group do not believe it is probable that they will be able to be utilised against future taxable income. The tax losses can be carried forward indefinitely.

There are no deferred tax liabilities arising on temporary differences associated with subsidiaries.

The movements in deferred tax assets and liabilities are shown below:

|   | Retirement<br>benefit<br>obligation<br>£'000 | Property,<br>plant and<br>equipment<br>£'000 | Total<br>£'000 |
|---|--|--|----------------|
| <b>Deferred tax liabilities</b>               |  |  |                |
| At 1 April 2019                               | (327)  | (254)  | (581)          |
| Charged to profit or loss                     | (89)   | (78)   | (167)          |
| Charged to statement of comprehensive income  | (383)  | –  | (383)          |
| <b>At 31 March 2020</b>                       | <b>(799)</b>                                 | <b>(332)</b>                                 | <b>(1,131)</b> |
| At 1 April 2018                               | (462)  | (320)  | (782)          |
| (Charged)/credited to profit or loss          | (37)   | 66   | 29             |
| Credited to statement of comprehensive income | 172  | –  | 172            |
| At 31 March 2019                              | (327)  | (254)  | (581)          |

|                            | Revenue<br>recognition<br>£'000 | Share<br>options<br>£'000 | Total<br>£'000 |
|----------------------------|---------------------------------|---------------------------|----------------|
| <b>Deferred tax assets</b> |                                 |                           |                |
| At 1 April 2019            | –                               | 28                        | 28             |
| Charged to profit or loss  | –                               | (4)                       | (4)            |
| Charged to equity          | –                               | (14)                      | (14)           |
| <b>At 31 March 2020</b>    | <b>–</b>                        | <b>10</b>                 | <b>10</b>      |
| At 1 April 2018            | 899                             | 120                       | 1,019          |
| Charged to profit or loss  | (899)                           | (38)                      | (937)          |
| Charged to equity          | –                               | (54)                      | (54)           |
| At 31 March 2019           | –                               | 28                        | 28             |

### Company

|                            | 2020<br>£'000 | 2019<br>£'000 |
|----------------------------|---------------|---------------|
| Deferred tax asset         | 115           | 123           |
| Deferred tax liability     | (377)         | (291)         |
| Net deferred tax liability | (262)         | (168)         |

IAS12 requires the offset of deferred tax balances meeting the offset criteria in the standard. All deferred tax liabilities were available for offset against deferred tax assets.

The rate of corporation tax was reduced to 19 per cent from 1 April 2017 in the Budget of July 2015 and the rate change was substantively enacted on 26 October 2015. It was reduced to 17 per cent from 1 April 2020 in the Budget of March 2016 and this rate change was substantively enacted on 6 September 2016. However in the Spring Budget of March 2020 the government announced that the rate would remain at 19 per cent and this rate change was substantively enacted on 17 March 2020. Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19 per cent (2019 : 19 per cent or 17 per cent depending on when the temporary differences were expected to reverse).

The movement on the deferred tax account is shown below:

|  | 2020<br>£'000 | 2019<br>£'000 |
|--|---------------|---------------|
| At 1 April                               | (168)         | (78)          |
| Profit or loss charge                    | (35)          | (27)          |
| Statement of comprehensive income charge | (45)          | (9)           |
| Amounts charged directly to equity       | (14)          | (54)          |
| <b>At 31 March</b>                       | <b>(262)</b>  | <b>(168)</b>  |

Deferred tax assets have been recognised in respect of other temporary differences giving rise to deferred tax assets where it is probable that these assets will be recovered. Deferred tax assets have not been provided on capital losses of £440,000 (2019 : £440,000) as, at the year end, the Company does not believe it is probable that they will be able to be utilised against future taxable income.

The movements in deferred tax assets and liabilities are shown below:

|  |  | Retirement<br>benefit<br>obligation<br>£'000 |                |
|--|--|--|----------------|
| <b>Deferred tax liabilities</b>              |  |  |                |
| At 1 April 2019                              |  | (291)  |                |
| Charged to profit or loss                    |  | (41)   |                |
| Charged to statement of comprehensive income |  | (45)   |                |
| <b>At 31 March 2020</b>                      |  | <b>(377)</b>                                 |                |
| At 1 April 2018                              |  | (275)  |                |
| Charged to profit or loss                    |  | (7)  |                |
| Charged to statement of comprehensive income |  | (9)  |                |
| At 31 March 2019                             |  | (291)  |                |
|  | Property,<br>plant and<br>equipment<br>£'000 | Share<br>options<br>£'000                    | Total<br>£'000 |
| <b>Deferred tax assets</b>                   |  |  |                |
| At 1 April 2019                              | 95   | 28   | 123            |
| Credited/(charged) to profit or loss         | 10   | (4)  | 6              |
| Charged to equity                            | –  | (14)   | (14)           |
| <b>At 31 March 2020</b>                      | <b>105</b>                                   | <b>10</b>                                    | <b>115</b>     |
| At 1 April 2018                              | 77   | 120  | 197            |
| Credited/(charged) to profit or loss         | 18   | (38)   | (20)           |
| Charged to equity                            | –  | (54)   | (54)           |
| At 31 March 2019                             | 95   | 28   | 123            |

## 11 Inventories Group

|                | 2020<br>£'000 | 2019<br>£'000 |
|----------------|---------------|---------------|
| Raw materials  | 35            | 252           |
| Finished goods | 2,805         | 4,322         |
|                | <b>2,840</b>  | <b>4,574</b>  |

The cost of inventories recognised as an expense in the year is £55,103,000 (2019 : £52,435,000).

The write down of inventories recognised as an expense in the period is £184,000 (2019 : £49,000).

Following the announcement in August 2020 that the Group would be consulting on the closure of the packing operations, including hamper packing, the Group impaired raw materials and finished goods stock held at 31 March 2020 by £124,000, which is included within the £184,000 as detailed above.

## Notes to the Accounts continued

### 12 Trade and other receivables Group

|                                      | 2020<br>£'000 | 2019<br>£'000 |
|--------------------------------------|---------------|---------------|
| <b>Current assets</b>                |               |               |
| Trade receivables                    | 5,838         | 9,444         |
| Less: Expected credit loss provision | (21)          | (5)           |
| Trade receivables – net              | 5,817         | 9,439         |
| Other receivables                    | 2,144         | 2,031         |
| Prepayments and accrued income       | 1,496         | 1,112         |
|                                      | <b>9,457</b>  | <b>12,582</b> |

Of the trade receivables net balance above, £5,556,000 is due within one month (2019 : £8,944,000), with the remaining £261,000 falling due in more than one but less than three months (2019 : £495,000). Other receivables are due within one month.

|  | 2020<br>£'000 | 2019<br>£'000 |
|--|---------------|---------------|
| <b>Credit quality of trade receivables</b> |               |               |
| Neither past due nor impaired              | 4,417         | 7,071         |
| Past due but not impaired                  | 1,400         | 2,368         |
| Past due and impaired                      | 21            | 5             |
| <b>Total</b>                               | <b>5,838</b>  | <b>9,444</b>  |

The Group has charged £21,000 in respect of ECLs during the year (2019 : £5,000).

The Group applies the IFRS9 simplified approach to measuring Expected Credit Losses (ECLs) for trade receivables at an amount equal to lifetime ECLs. The ECLs on trade receivables are calculated based on actual credit loss experience over the preceding two years on the total balance of trade receivables before impairment. The Group's credit loss experience has shown that ageing of receivable balances is primarily due to normal collection process issues rather than increased likelihood of non-recoverability. This is shown in the fact that the Group has only experienced credit losses of £39,000 in the preceding two years which is less than 0.02 per cent of the credit sales made in that period. Credit rating of debtors are carefully monitored when initially offering credit and the use of credit insurance and up front payments further mitigate the risk of default. The Group has fully analysed the impact of Covid-19 on the future ECLs and concluded that with the safeguards outlined above and taking into consideration recent collection patterns that there will not be a material impact on the assessment of ECLs.

The movement in the provision for ECLs is as follows:

|                       | 2020<br>£'000 | 2019<br>£'000 |
|-----------------------|---------------|---------------|
| At 1 April            | (5)           | (5)           |
| Additional provisions | (21)          | –             |
| Amounts used          | 5             | –             |
| Amounts recovered     | –             | –             |
| <b>At 31 March</b>    | <b>(21)</b>   | <b>(5)</b>    |

Within the prepayments balance above £156,000 (2019 : £191,000) relates to the incremental costs of obtaining contracts with customers. Park Christmas Savings agents earn commission rewards on their orders and this is an incremental cost of obtaining their contracts.

For multi-retailer redemption products (vouchers, cards and e-codes), the commission costs are prepaid. The costs are recognised in cost of sales when the services are transferred to the customer, ie when the customer redeems their product or when charges are levied.

The prepayment at 31 March 2020 relates to Christmas 2020 and will be recognised in cost of sales over the forthcoming six months in proportion to the actual timing of redemption and charges.

Commission reward payments for single retailer redemption products and other goods are expensed as incurred.

The movement in the prepayment of costs of obtaining contracts with customers is as follows:

|   | 2020<br>£'000 | 2019<br>£'000 |
|---|---------------|---------------|
| At 1 April                              | 191           | 213           |
| Prepaid commissions                     | 156           | 191           |
| Commissions recognised in cost of sales | (191)         | (213)         |
| <b>At 31 March</b>                      | <b>156</b>    | <b>191</b>    |

No impairment losses were recognised during the year (2019 : £nil).

#### Company

|                               | 2020<br>£'000 | 2019<br>£'000 |
|-------------------------------|---------------|---------------|
| Receivables from subsidiaries | 27,583        | 11,947        |
| Other receivables             | 384           | 882           |
| Prepayments                   | 38            | 649           |
|                               | <b>28,005</b> | <b>13,478</b> |

Other receivables are due within one month.

Management's assessment of the impact of IFRS9 has focused on the change in IFRS9 around ECLs on intercompany balances. The receivables from subsidiary companies are classified as repayable on demand. Management have considered the probability of default, the loss given default when the borrower is not capable of repaying on demand and the discount rate when calculating ECLs. The Company has fully analysed the impact of Covid-19 on the future ECLs and concluded that there will not be a material impact on the assessment of ECLs.

#### 13 Other financial assets Group

|              | 2020<br>£'000 | 2019<br>£'000 |
|--------------|---------------|---------------|
| Bank deposit | –             | 200           |

The prior year balance comprised a deposit with a bank which had a maturity date of 27 November 2019. The deposit was held to maturity and generated a fixed interest income to the Group.

#### 14 Monies held in trust Group

|                                   | 2020<br>£'000  | 2019<br>£'000 |
|-----------------------------------|----------------|---------------|
| Park Prepayments Protection Trust | 55,078         | 60,835        |
| e-money Trust                     | 44,225         | 36,590        |
| Ring fenced funds                 | 3,390          | 1,826         |
| <b>Monies held in trust</b>       | <b>102,693</b> | <b>99,251</b> |

On 13 August 2007 a declaration of trust constituted PPPT to hold customer prepayments. Park Prepayments Trustee Company Limited, as trustee of the trust, holds this money on behalf of the agents.

The conditions of the trust that allow the release of money to the Group are summarised below:

- 1 Purchase of products to be supplied to customers.
- 2 Supply of products to customers less any amounts already received under condition 1 (above).
- 3 Amounts required as a security deposit to any credit card company or other surety.
- 4 Amounts payable for VAT.
- 5 Amount equal to any bond required by the Christmas Prepayments Association (CPA).
- 6 Amounts to meet its working capital requirements.
- 7 Residual amounts upon completion of despatch of all orders in full.

Products for this purpose means goods, vouchers, prepaid cards or other products ordered by customers.



## Notes to the Accounts continued

### 14 Monies held in trust continued

Prior to any such release of monies under condition 6 above, the trustees of PPPT require a statement of adequacy of working capital from the directors of Park Retail Limited, stating that it will have sufficient working capital for the year. Releases can be requested from the trust between 1 February and 31 May of each year and shall not exceed 50 per cent of the cumulative balance of prepayments made by customers.

A summary of the main provision of the deeds and a copy of the trust deed is available at [www.getpark.co.uk](http://www.getpark.co.uk).

On 16 February 2010 a declaration of trust constituted the PCSET to hold the e-money float in accordance with regulatory requirements. The e-money float represents the value of the obligations of the Company to cardholders and redeemers.

The ring fenced funds represent amounts segregated from Group cash balances and are in respect of monies held on cards which are not subject to regulatory requirements. As a result the amounts are not held within the e-money Trust.

Monies held in trust are invested in deposit accounts with maturity dates of up to two years. The timing of the release of the monies to the Group from PPPT is as detailed above and is expected to be within 12 months of the year end. The release of monies from the e-money Trust and ring fenced funds, occurs as the obligations fall due.

### 15 Cash Group

|                          | 2020<br>£'000 | 2019<br>£'000 |
|--------------------------|---------------|---------------|
| Cash at bank and in hand | <b>29,632</b> | 36,868        |

All cash held at bank at 31 March 2020 and 31 March 2019 was held in instant access accounts.

### Company

|                          | 2020<br>£'000 | 2019<br>£'000 |
|--------------------------|---------------|---------------|
| Cash at bank and in hand | <b>28,769</b> | 35,872        |

All cash held at bank at 31 March 2020 and 31 March 2019 was held in instant access accounts.

The stocks and shares of Appreciate Group plc are the subject of a charge in favour of Barclays Bank plc, the Company's bankers.

### 16 Assets held for sale Group

|  | 2020<br>£'000  | 2019<br>£'000 |
|--|----------------|---------------|
| Transfer from property plant and equipment | <b>4,803</b>   | –             |
| Impairment                                 | <b>(1,650)</b> | –             |
| Assets held for sale                       | <b>3,153</b>   | –             |

An assessment was carried out at 30 September 2019 as to whether the Valley Road property was an Asset held for sale. All of the criteria were met, and since that time the property has been classed as such. Depreciation was stopped at this point and the property was held at fair value. As at 31 March 2020 a reassessment of this position took place and all of the criteria were met for the property to continue to be classed as an Asset held for sale. This assessment included an exception to the one-year rule being taken under IFRS 5.9, as the Covid-19 pandemic had delayed the sale of the asset, meaning that the sale may not occur within the original 12-month period. This exception was allowable as the Group has taken the necessary actions to respond to this change in circumstance and the asset remains available for immediate sale.

A valuation was carried out as at 31 March 2020 in order to determine the fair value less costs to sell of the asset. This resulted in an impairment of £1,650,000. This impairment was in addition to an impairment of £163,000 made prior to the transfer of the property to Assets held for sale, taking the total impairment in the year to £1,813,000.

## 17 Trade and other payables

### Group

#### Non-current

|                             | 2020<br>£'000 | 2019<br>£'000 |
|-----------------------------|---------------|---------------|
| Lease liabilities (note 19) | 4,132         | –             |
|                             | <b>4,132</b>  | <b>–</b>      |

#### Current

|   | 2020<br>£'000 | 2019<br>£'000 |
|---|---------------|---------------|
| Bank overdraft                            | –             | 2,305         |
| Trade payables                            | 57,150        | 61,191        |
| Payables in respect of cards and vouchers | 17,060        | 14,193        |
| Lease liabilities (note 19)               | 219           | –             |
| Other taxes and social security payable   | 1,025         | 1,271         |
| Other payables                            | 2,317         | 2,584         |
| Accruals                                  | 1,733         | 1,425         |
| Deferred income                           | 7,359         | 6,983         |
|   | <b>86,863</b> | <b>89,952</b> |

The bank overdraft in the prior year was a cashbook balance that has arisen due to the timing of unrepresented cheques.

Trade payables and payables in respect of cards and vouchers fall due as follows:

|  | 2020<br>£'000 | 2019<br>£'000 |
|--|---------------|---------------|
| Not later than one month                             | 74,077        | 75,004        |
| Later than one month and not later than three months | 133           | 380           |
|  | <b>74,210</b> | <b>75,384</b> |

Trade payables include savers' prepayments for products that will be supplied prior to Christmas 2020, upon confirmation of order.

Payables in respect of cards and vouchers include balances due to both customers (£11.1m (2019 : £7.9m)) and retailers in respect of flexecash® cards, and amounts due to retailers for Love2shop vouchers.

Other payables are due within one month.

Deferred income is in respect of multi-retailer redemption products (vouchers, cards and e-codes). Revenue is deferred for service fees and breakage, net of discount.

The movement in deferred revenue is as follows:

|                                  | 2020<br>£'000 | 2019<br>£'000 |
|----------------------------------|---------------|---------------|
| At 1 April                       | 6,983         | 5,795         |
| Revenue deferred in the period   | 5,774         | 6,097         |
| Revenue recognised in the period | (5,398)       | (4,909)       |
| <b>At 31 March</b>               | <b>7,359</b>  | <b>6,983</b>  |

Revenue is recognised when the customer redeems their product or when charges are levied. Over 90 per cent of multi-retailer redemption products are redeemed within 12 months of issue, with the associated revenue being recognised in the same period.

## Notes to the Accounts continued

### 17 Trade and other payables continued Company

|   | 2020<br>£'000 | 2019<br>£'000 |
|---|---------------|---------------|
| Bank overdraft                          | –             | 221           |
| Trade payables                          | 2             | 197           |
| Other taxes and social security payable | 178           | 152           |
| Payables to subsidiaries                | 46,571        | 41,002        |
| Other payables                          | 157           | 208           |
| Accruals and deferred income            | 254           | 575           |
|   | <b>47,162</b> | <b>42,355</b> |

The bank overdraft in the prior year is a cashbook balance that has arisen due to the timing of unrepresented cheques.

Trade payables and other payables are due within one month.

Payables to subsidiaries are not interest bearing and are repayable on demand.

### 18 Provisions Group

|   | Vouchers       |                                   |               | Corporate gifted cards |                                   |               | Payment protection insurance<br>£'000 | Total<br>£'000 |
|---|----------------|-----------------------------------|---------------|------------------------|-----------------------------------|---------------|---------------------------------------|----------------|
|   | Gross<br>£'000 | Impact of<br>discounting<br>£'000 | Net<br>£'000  | Gross<br>£'000         | Impact of<br>discounting<br>£'000 | Net<br>£'000  |                                       |                |
| At 1 April 2019   | 36,546         | (290)                             | 36,256        | 22,091                 | (117)                             | 21,974        | 56                                    | 58,286         |
| Arising on vouchers/cards despatched<br>in period at date of despatch                               | 26,257         | (38)                              | 26,219        | 21,333                 | (80)                              | 21,253        | –                                     | 47,472         |
| Increase in provision arising from the<br>unwind of the discount recorded on<br>initial recognition | –              | 283                               | 283           | –                      | 129                               | 129           | –                                     | 412            |
| Decrease in payment protection<br>insurance provision in period                                     | –              | –                                 | –             | –                      | –                                 | –             | (13)                                  | (13)           |
| Payment protection insurance<br>provision utilised in period  | –              | –                                 | –             | –                      | –                                 | –             | (5)                                   | (5)            |
| Vouchers/cards issued in prior<br>periods, utilised in current period                               | (32,104)       | –                                 | (32,104)      | (20,246)               | –                                 | (20,246)      | –                                     | (52,350)       |
| <b>At 31 March 2020</b>   | <b>30,699</b>  | <b>(45)</b>                       | <b>30,654</b> | <b>23,178</b>          | <b>(68)</b>                       | <b>23,110</b> | <b>38</b>                             | <b>53,802</b>  |

The voucher provision is made in respect of unredeemed vouchers which are included at the present value of expected redemption amounts. This comprises the anticipated amounts payable to retailers on redemption after applying an appropriate discount rate to take into account the expected timing of payments. The anticipated amounts payable to retailers are arrived at by reference to historical data as to voucher redemption patterns. Whilst the voucher redemption provision covers a number of years of expected redemptions, over 90 per cent of vouchers are redeemed within 12 months of issue.

Provision is made for redemption of corporate gifted cards where the cardholder does not have the right of redemption.

The unwinding of the discount recorded on initial recognition in respect of vouchers and cards is included within cost of sales in the statement of profit or loss. The discount rate used is 0.117 per cent (2019: voucher 0.900 per cent, cards 1.100 per cent).

The payment protection insurance provision is in respect of future expected settlements of claims arising from the mis-selling of payment protection insurance. The Group ceased to sell this insurance in 2007 when it closed its loan broking business. The timing of the outflows are uncertain but the Group expect the majority of outstanding claims to be settled within the next 12 months. The deadline for new claims passed in August 2019, so no further claims are expected in future periods.

## 19 Leases

### Group as a lessee

The Group leases many assets including land and buildings and plant and machinery. Information about leases for which the Group is a lessee is presented below.

#### Right of Use Assets

|                                 | Land and<br>Buildings<br>£'000 | Plant and<br>Equipment<br>£'000 | Total<br>£'000 |
|---------------------------------|--------------------------------|---------------------------------|----------------|
| <b>Cost or valuation</b>        |                                |                                 |                |
| At 1 April 2019                 | 117                            | 8                               | 125            |
| Additions                       | 3,904                          | 67                              | 3,971          |
| Disposals                       | (18)                           | –                               | (18)           |
| <b>At 31 March 2020</b>         | <b>4,003</b>                   | <b>75</b>                       | <b>4,078</b>   |
| <b>Accumulated Depreciation</b> |                                |                                 |                |
| At 1 April 2019                 | –                              | –                               | –              |
| Depreciation Charge             | 268                            | 17                              | 285            |
| Disposals                       | (6)                            | –                               | (6)            |
| <b>At 31 March 2020</b>         | <b>262</b>                     | <b>17</b>                       | <b>279</b>     |
| <b>Net Book Amount</b>          |                                |                                 |                |
| <b>At 31 March 2020</b>         | <b>3,741</b>                   | <b>58</b>                       | <b>3,799</b>   |

The increase in land and buildings right of use assets (ROUAs) in the period is the result of the new lease of floors 3 and 4, 20 Chapel Street Liverpool. The increase in plant and equipment ROUAs in the period is the result of the leasing of forklift trucks for our Valley Road warehouse facilities.

There are no securities held or financial covenants required to be maintained in respect of these leases.

There is a dilapidation provision of £50,000 related to the Chapel Street lease. The debit is held within leasehold improvements in Property, plant and equipment (note 9), and the credit within Trade and other payables (note 17).

#### Lease Liabilities

|                         | Land and<br>Buildings<br>£'000 | Plant and<br>Equipment<br>£'000 | Total<br>£'000 |
|-------------------------|--------------------------------|---------------------------------|----------------|
| At 1 April 2019         | 117                            | 8                               | 125            |
| New Leases              | 4,063                          | 67                              | 4,130          |
| Interest Expense        | 174                            | 3                               | 177            |
| Lease Payments          | (61)                           | (20)                            | (81)           |
| <b>At 31 March 2020</b> | <b>4,293</b>                   | <b>58</b>                       | <b>4,351</b>   |

The cost relating to variable lease payments that do not depend on an index or a rate amounted to £nil in the period.

There were no leases with residual value guarantees or leases not yet commenced to which the Group is committed.

#### Maturity Analysis – contractual undiscounted cash flows

|  | £'000        |
|--|--------------|
| Less than One Year                                     | 219          |
| One to Five Years                                      | 1,662        |
| More than Five Years                                   | 4,555        |
| <b>Undiscounted lease liabilities at 31 March 2020</b> | <b>6,436</b> |

## Notes to the Accounts continued

### 19 Leases continued

#### Lease Liabilities included in the Statement of Financial Position

|  | £'000        |
|--|--------------|
| Current  | 219          |
| Non-current  | 4,132        |
| <b>Discounted lease liabilities at 31 March 2020</b> | <b>4,351</b> |

#### Amounts recognised in the statement of profit or loss

|  | £'000      |
|--|------------|
| Interest on Lease Liabilities (note 3)   | 177        |
| Expense relating to short-term leases (included within administrative expenses)                                      | 10         |
| Expense relating to leases of low value assets excluding short term leases (included within administrative expenses) | 1          |
| Variable lease payments not included in the measurement of lease liabilities   | –          |
| Gain arising from subletting Right of Use Assets.  | (1)        |
| <b>Total amount recognised in the statement of profit or loss for the year ended 31 March 2020</b>                   | <b>187</b> |

#### Amounts Recognised in the statement of cash flows

|   | £'000 |
|---|-------|
| Total Cash Outflows for leases for the year ended 31 March 2020 | 81    |

#### *i. Real estate leases*

The Group leases land and buildings for its head office and regional offices. The lease for the Group's head office runs for 10 years, and regional offices for between 3 to 10 years. The head office lease includes an option to renew the lease for a period of up to 5 years at the end of the contract term.

#### Extension Options

The 10 year head office lease contains an extension option of 5 years. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the option if there is a significant event or significant change in the circumstances within its control. The head office has been accounted for on the basis that the extension option will be taken and is therefore accounted for on a 15 year basis. There are no other extension options, and there are no termination options expected to be exercised.

#### *ii. Other Leases*

The Group adopted IFRS16 on 1 April 2019. At that date the Group were leasing plant and machinery within leases that had less than 6 months left to run. These leases are short term. The Group elected not to recognise right-of-use-assets and lease liabilities for these leases.

The Group also leases storage space for sales displays. The value of this lease is less than one thousand pound per year. These leases are of low value under IFRS16 definition. The Group elected not to recognise right-of-use-assets and lease liabilities for these leases.

#### **Group as a lessor**

Lease Income from lease contracts in which the Group acts as a lessor is as below.

#### **i. Operating Lease**

The Group sub-leases part of an office building in Oxford that it leased in February 2018. As at 1 April 2019 the Group had sublet a portion of this office space. The Group had previously classified this lease income as operating lease income, because the lease does not transfer substantially all the risks and rewards incidental to the ownership of the assets. Due to the fact that at 1 April 2019 the lease had only 3 months left the income was treated in the accounts as operating lease income. This was accounted for within other income.

|  | Land and<br>Buildings<br>£'000 | Plant and<br>Equipment<br>£'000 | Total<br>£'000 |
|--|--------------------------------|---------------------------------|----------------|
| <b>Operating Lease Income year ended 31 March 2020</b> | <b>2</b>                       | <b>–</b>                        | <b>2</b>       |

## ii. Finance Lease

In November 2019 the Group sublet a further portion of its Oxford office building. The Group has classified the sub-lease as a finance lease, because the sub-lease is for the whole remaining term of the head lease, which ends 31 January 2021. The £18,000 disposal of ROUA and £6,000 disposal of accumulated depreciation in the ROUA table in this note reflect the derecognition of the sub-leased portion of the office.

|  | Land and<br>Buildings<br>£'000 | Plant and<br>Equipment<br>£'000 | Total<br>£'000 |
|--|--------------------------------|---------------------------------|----------------|
| <b>Finance Lease Income year ended 31 March 2020</b> | –                              | –                               | –              |

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

|   | £'000    |
|---|----------|
| <b>Finance Leases Maturity Analysis – contractual undiscounted cash flows</b> |          |
| Less than One Year  | 9        |
| One to Five Years   | –        |
| <b>Total undiscounted lease payments receivable as at 31 March 2020</b>       | <b>9</b> |
| Unearned finance income   | –        |
| <b>Net Investment in the lease as at 31 March 2020</b>                        | <b>9</b> |

These are included within other receivables in note 9.

## 20 Retirement benefit obligation

### Group and Company

#### Defined Benefit Plan

The Group operates two defined benefit pension schemes, Park Food Group plc Pension Scheme (PF) and Park Group Pension Scheme (PG), providing benefits based on final pensionable pay. Both schemes are closed to future accrual of benefit based on service. The assets of the schemes are held separately from those of the Company in trustee administered funds. Contributions to the schemes are determined by a qualified actuary on the basis of triennial valuations.

The Company operates the PF defined benefit scheme.

Both schemes are subject to the funding legislation which came into force on 30 December 2005, outlined in the Pensions Act 2004. This, together with documents issued by the Pensions Regulator, the Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension plans in the UK. The trustees of the schemes are required to act in the best interests of the schemes beneficiaries and are responsible for setting the investment, funding and governance policies of the fund. The schemes are administered by an independent trustee appointed by the Group. Appointment of the trustees is determined by the schemes' trust documentation.

The Group and Company has applied IAS 19 Employee Benefits (revised 2011) and the following disclosures relate to this standard. The present value of the scheme liabilities is measured by discounting the best estimate of future cashflows to be paid out of the scheme using the projected unit credit method. All actuarial gains and losses have been recognised in the period in which they occur in other comprehensive income. There have been no scheme amendments, curtailments or settlements in the year.

For the purposes of IAS19 the preliminary results of the actuarial valuation as at 31 March 2019, for both schemes, which was carried out by a qualified independent actuary, have been updated on an approximate basis to 31 March 2020. There have been no changes in the valuation methodology adopted for this period's disclosures compared to the previous period's disclosures.

The schemes typically expose the Group to actuarial risks such as investment risk, interest rate risk, salary growth risk, mortality risk and longevity risk.



## Notes to the Accounts continued

### 20 Retirement benefit obligation continued

The amounts recognised in the statement of financial position are as follows:

|                                       | Group         |               | Company       |               |
|---------------------------------------|---------------|---------------|---------------|---------------|
|                                       | 2020<br>£'000 | 2019<br>£'000 | 2020<br>£'000 | 2019<br>£'000 |
| Present value of pension obligation   | (19,683)      | (22,887)      | (1,544)       | (1,862)       |
| Fair value of scheme assets           | 23,889        | 24,814        | 3,528         | 3,577         |
| Net pension surplus                   | 4,206         | 1,927         | 1,984         | 1,715         |
| – comprising schemes in asset surplus | 4,206         | 1,927         | 1,984         | 1,715         |
| – comprising schemes in asset deficit | –             | –             | –             | –             |

The amounts recognised in the statement of profit or loss are as follows:

|  | Group         |               | Company       |               |
|--|---------------|---------------|---------------|---------------|
|  | 2020<br>£'000 | 2019<br>£'000 | 2020<br>£'000 | 2019<br>£'000 |
| Past service cost  | –             | 310           | –             | –             |
| Net interest income  | (44)          | (73)          | (39)          | (42)          |
| Components of defined benefit income recognised in the statement of profit or loss | (44)          | 237           | (39)          | (42)          |

Following a High Court ruling in October 2018 the Group is required to equalise Guaranteed Minimum Payments (GMPs) for men and women. The impact of this for the year to 31 March 2020 was £nil (2019: £310,000).

The costs are all recognised within administration expenses in the statement of profit or loss.

### Analysis of amount to be recognised in the SOCI:

|  | Group         |               | Company       |               |
|--|---------------|---------------|---------------|---------------|
|  | 2020<br>£'000 | 2019<br>£'000 | 2020<br>£'000 | 2019<br>£'000 |
| Return on scheme assets  | (892)         | 542           | (30)          | 126           |
| Experience gains and (losses) arising on the defined benefit obligation  | 528           | 1             | 197           | 1             |
| Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation | 326           | –             | (60)          | –             |
| Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation   | 2,273         | (1,552)       | 123           | (73)          |
| Remeasurements of defined benefit schemes recognised in the SOCI   | 2,235         | (1,009)       | 230           | 54            |

### Scheme assets

It is the policy of the trustees of the Company to review the investment strategy at the time of each funding valuation. The trustees' investment objectives and the processes undertaken to measure and manage the risks inherent in the scheme's investment strategy are documented in the scheme's Statement of Investment Principles.

### Fair value of scheme assets:

|                                 | Group         |               | Company       |               |
|---------------------------------|---------------|---------------|---------------|---------------|
|                                 | 2020<br>£'000 | 2019<br>£'000 | 2020<br>£'000 | 2019<br>£'000 |
| Diversified Growth Assets (DGA) | 5,641         | 6,002         | –             | –             |
| Gilts                           | 3,492         | 3,520         | 3,492         | 3,520         |
| LDI                             | 4,784         | 5,448         | –             | –             |
| Loan Fund                       | 1,970         | 2,279         | –             | –             |
| Multi Asset Credit              | 3,286         | 3,086         | –             | –             |
| Index Linked Gilts              | 4,687         | 4,342         | –             | –             |
| Cash and other                  | 29            | 137           | 36            | 57            |
| Total assets                    | 23,889        | 24,814        | 3,528         | 3,577         |

None of the fair values of the assets shown above include any of the Company's own financial instruments or any property occupied by, or other assets used by, Appreciate Group plc. All of the schemes assets have a quoted market price in an active market with the exception of the trustee's bank account balance.

**The movement in the fair value of scheme assets is as follows:**

|  | Group         |               | Company       |               |
|--|---------------|---------------|---------------|---------------|
|  | 2020<br>£'000 | 2019<br>£'000 | 2020<br>£'000 | 2019<br>£'000 |
| Fair value of scheme assets at the start of the period | 24,814        | 23,762        | 3,577         | 3,466         |
| Interest income  | 564           | 617           | 81            | 89            |
| Return on scheme assets                                | (892)         | 542           | (30)          | 126           |
| Contributions by employer                              | –             | 452           | –             | –             |
| Contributions by employees                             | –             | –             | –             | –             |
| Benefits paid  | (597)         | (559)         | (100)         | (104)         |
| Fair value of plan assets at the end of the period     | 23,889        | 24,814        | 3,528         | 3,577         |

Actual return on scheme assets for the year to 31 March 2020 was £(397,000) for the PG scheme and £51,000 for the PF scheme.

**Present value of obligations**

**The movement in the present value of the defined benefit obligation is as follows:**

|  | Group         |               | Company       |               |
|--|---------------|---------------|---------------|---------------|
|  | 2020<br>£'000 | 2019<br>£'000 | 2020<br>£'000 | 2019<br>£'000 |
| Opening defined benefit obligation                               | 22,887        | 21,041        | 1,862         | 1,847         |
| Interest cost  | 520           | 544           | 42            | 47            |
| Actuarial (gains)/losses due to scheme experience                | (528)         | (1)           | (197)         | (1)           |
| Actuarial gains due to changes in demographic assumptions        | (326)         | –             | 60            | –             |
| Actuarial (gains)/losses due to changes in financial assumptions | (2,273)       | 1,552         | (123)         | 73            |
| Benefits paid  | (597)         | (559)         | (100)         | (104)         |
| Past service costs   | –             | 310           | –             | –             |
| Closing defined benefit obligation                               | 19,683        | 22,887        | 1,544         | 1,862         |

The average duration of the defined benefit obligation at 31 March 2020 is 19 years for both schemes.

**Significant actuarial assumptions**

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

The following information relates to both the PG and PF schemes unless otherwise stated.

|  | 2020<br>% per annum | 2019<br>% per annum |
|--|---------------------|---------------------|
| <i>Financial and related actuarial assumptions:</i>                        |                     |                     |
| Discount rate  | 2.40                | 2.30                |
| Inflation (RPI)  | 2.60                | 3.50                |
| Inflation (CPI)  | 1.80                | 2.50                |
| Future salary increases*   | 1.80                | 2.50                |
| Allowance for revaluation of deferred pensions of RPI or 8.5% pa if less** | 2.70                | 3.50                |
| Allowance for revaluation of deferred pensions of CPI or 5% pa if less*    | 1.80                | 2.50                |
| Allowance for revaluation of deferred pensions of CPI or 2.5% pa if less*  | 1.80                | 2.50                |
| Allowance for pension in payment increases of CPI or 5% pa if less*        | 1.90                | 2.50                |
| Allowance for pension in payment increases of CPI or 3% pa if less*        | 1.70                | 2.50                |
| Allowance for pension in payment increases of CPI or 2.5% pa if less*      | 1.50                | 2.50                |
| Allowance for commutation of pension for cash at retirement                | 100% of Post A Day  | 100% of Post A Day  |

\* relates to the PG scheme only

\*\* relates to the PF scheme only

## Notes to the Accounts continued

### 20 Retirement benefit obligation continued

The mortality assumptions adopted are 105% of the standard tables S2PxA, year of birth, no age rating for males and females, projected using Continuous Mortality Investigation (CMI) \_ 2019 converging to 1 per cent pa. These imply the following life expectancies:

|                                       | 2020<br>Years | 2019<br>Years |
|---------------------------------------|---------------|---------------|
| <i>Life expectancy at age 65 for:</i> |               |               |
| Male – retiring in 2019               | 21.2          | 21.8          |
| Female – retiring in 2019             | 23.1          | 23.7          |
| Male – retiring in 2039               | 22.3          | 22.9          |
| Female – retiring in 2039             | 24.4          | 25.0          |

### Sensitivity analysis on significant actuarial assumptions:

The following table summarises the impact on the defined benefit obligation at the end of the reporting period, if each of the significant actuarial assumptions above were changed, in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation, pension increases and salary growth. The sensitivities shown below are approximate.

|                       | Change in assumption                  | Change in liabilities |
|-----------------------|---------------------------------------|-----------------------|
| <i>PG scheme:</i>     |                                       |                       |
| Discount rate         | decrease of 0.25% pa                  | increase by 4.7%      |
| Rate of inflation     | increase of 0.25% pa                  | increase by 2.9%      |
| Rate of salary growth | increase of 0.25% pa                  | increase by 0.4%      |
| Rate of mortality     | increase in life expectancy of 1 year | increase by 2.9%      |
| <i>PF scheme:</i>     |                                       |                       |
| Discount rate         | decrease of 0.25% pa                  | increase by 2.4%      |
| Rate of inflation     | increase of 0.25% pa                  | increase by 1.8%      |
| Rate of mortality     | increase in life expectancy of 1 year | increase by 5.5%      |

The sensitivity assumption used in the year was 0.25 per cent (2019: 0.1 per cent). This was updated to be in line with the standard sensitivity analysis used by pension advice providers in their disclosures to clients.

The schemes typically expose the Group to actuarial risks such as investment risk, interest rate risk, salary growth risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to the schemes liabilities. This would detrimentally impact on the statement of financial position and may give rise to increased charges in future statements of profit or loss. This effect would be partially offset by an increase in the value of the schemes bond holdings. Additionally, caps on inflationary increases are in place to protect the scheme against extreme inflation.

### Funding

The Group expects to contribute £nil to the PG scheme for the accounting period commencing 1 April 2020. This is based upon the current schedule of contributions following the actuarial valuation carried out as at 31 March 2019. The best estimate of contributions to be paid to the PF scheme is £nil per annum.

### Defined contribution plan

The Group makes contributions to a defined contribution pension scheme which is insured with Aviva. It also makes contributions to a defined contribution stakeholder pension plan, insured with NEST, for employees who are not eligible to join the Aviva defined contribution scheme, as well as to individual personal pension plans for certain employees.

The total pension charge for the year to 31 March 2020 was £913,000 (2019 : £805,000) for the defined contribution pension schemes. At 31 March 2020, contributions of £74,000 (2019 : £68,000) were outstanding, which represented the contributions for the month of March.

### 21 Employees and directors

#### Group

Employee benefit expense for the Group during the year (including executive directors)

|                       | 2020<br>£'000 | 2019<br>£'000 |
|-----------------------|---------------|---------------|
| Wages and salaries    | 13,396        | 12,965        |
| Social security costs | 1,326         | 1,296         |
| Other pension costs   | 869           | 1,042         |
| Share-based payments  | 233           | 126           |
| Other benefits        | 75            | 73            |
|                       | 15,899        | 15,502        |

Included within the above are staff costs of £891,000 (2019 : £429,000) which have been capitalised as intangible assets.

During the year there were redundancy costs of £423,000 which relate to a one-off redundancy exercise. The driving force behind this exercise was the shift in the business strategy towards digital products.

#### Average monthly number of people (including executive directors) employed

|                         | 2020<br>Number | 2019<br>Number |
|-------------------------|----------------|----------------|
| Consumer                | 196            | 177            |
| Corporate               | 175            | 160            |
| All other segments      | 11             | 16             |
| Average number employed | 382            | 353            |

#### Key management compensation

|   | 2020<br>£'000 | 2019<br>£'000 |
|---|---------------|---------------|
| Salaries and short term employee benefits   | 1,980         | 1,923         |
| Post employment benefits                    | 71            | 33            |
| Gain on exercise of share options and LTIPs | –             | 97            |
| Share-based payments                        | 200           | 79            |
|   | 2,251         | 2,132         |

Key management are deemed to be the Group's executive and non-executive directors and the senior leadership team.

Details of directors' emoluments (including those of the highest paid), pension contributions and details of share awards (including options) can be found in the Remuneration Report on page 53.

## 22a Share capital Group and Company

|   | No of shares | £'000 |
|---|--------------|-------|
| Authorised: Ordinary shares of 2p each<br>At 31 March 2019 and 2020 | 195,000,000  | 3,900 |
| Allotted, called up and fully paid<br>At 31 March 2019 and 2020     | 186,347,228  | 3,727 |

## 22b Share-based payments SGP

On 21 December 2018, the Park Group Strategic Growth Plan was adopted by the remuneration committee. This plan is for the benefit of certain employees selected at the discretion of the committee. The plan provides the participants with a pool of shares with a value equal to 10 per cent of any cumulative shareholder value created above a compound hurdle of 10 per cent per annum over a performance period between 1 October 2018 and 30 September 2023. Each participant is allocated a share of the pool. An overall cap on the maximum number of shares that can be granted under the SGP is set at 5 per cent of the outstanding share capital at grant, to prevent excessive payouts or dilution. Further details can be found in the Remuneration Report on page 51 to 53.

### Appreciate Group plc 2009 LTIP

In June 2010, an LTIP was adopted by the remuneration committee ('2009 LTIP'). This plan was for the benefit of certain employees selected at the discretion of the committee. The awards consist of allocations of shares, the final distribution of which is dependent on market performance targets. Each participating employee can be awarded shares up to a maximum value of 100 per cent of salary.

### SAYE

This scheme is open to all employees. Under this scheme employees enter into a savings contract for a period of three years and agree to save a regular amount each month between £5 and £500. Options are granted on commencement of the contract and exercisable using the amount saved under the contract at the time it terminates. Options under the scheme are granted at a discount of 10 per cent to the market price at the start of the contract and are not subject to performance conditions.

Exercise of options is subject to continued employment. Options lapse if an individual leaves the Company by resigning or if they choose to stop paying into their savings accounts. In either instance they can withdraw their money they have already saved but cannot exercise their options. Options must be exercised within six months after the end of the three year savings period.

## Notes to the Accounts continued

### 22b Share-based payments continued

The tables below summarise the outstanding options and awards:

#### SGP

|   | 2020      |                                     | 2019      |                                     |
|---|-----------|-------------------------------------|-----------|-------------------------------------|
|   | Number    | Weighted average exercise price (p) | Number    | Weighted average exercise price (p) |
| Outstanding at 1 April                      | 6,520,942 | –                                   | –         | –                                   |
| Granted                                     | –         | –                                   | 6,520,942 | –                                   |
| Outstanding at 31 March                     | 6,520,942 | –                                   | 6,520,942 | –                                   |
| Exerciseable at 31 March                    | –         | –                                   | –         | –                                   |
|   |           |                                     | 2020      | 2019                                |
| SGP awards outstanding at end of period     |           |                                     |           |                                     |
| Weighted average remaining contractual life |           |                                     | 3.5 years | 4.5 years                           |

#### LTIP

|  | 2020      |                                     | 2019      |                                     |
|--|-----------|-------------------------------------|-----------|-------------------------------------|
|  | Number    | Weighted average exercise price (p) | Number    | Weighted average exercise price (p) |
| Outstanding at 1 April   | 268,877   | –                                   | 1,133,413 | –                                   |
| Expired  | (106,000) | –                                   | (134,284) | –                                   |
| Forfeited  | –         | –                                   | (391,536) | –                                   |
| Exercised  | –         | –                                   | (338,716) | –                                   |
| Outstanding at 31 March  | 162,877   | –                                   | 268,877   | –                                   |
| Exerciseable at 31 March   | –         | –                                   | –         | –                                   |
|  |           |                                     | 2020      | 2019                                |
|  |           |                                     |           |                                     |
| Shares awarded in respect of LTIP awards exercised in the financial period | –         | –                                   | 179,519   | 72.50                               |
|  |           |                                     | 2020      | 2019                                |
| LTIP awards outstanding at end of period                                   |           |                                     |           |                                     |
| Weighted average remaining contractual life                                |           |                                     | 0.2 years | 0.8 years                           |

#### SAYE

|                          | 2020     |                                     | 2019      |                                     |
|--------------------------|----------|-------------------------------------|-----------|-------------------------------------|
|                          | Number   | Weighted average exercise price (p) | Number    | Weighted average exercise price (p) |
| Outstanding at 1 April   | 739,523  | 12.20                               | 640,615   | 13.00                               |
| Granted                  | –        | –                                   | 811,734   | 12.20                               |
| Cancelled                | (71,675) | 12.20                               | (31,746)  | 13.40                               |
| Forfeited                | (48,672) | 12.20                               | (72,211)  | 12.20                               |
| Exercised                | –        | –                                   | (608,869) | 12.90                               |
| Outstanding at 31 March  | 619,176  | 12.20                               | 739,523   | 12.20                               |
| Exerciseable at 31 March | –        | –                                   | –         | –                                   |

|   | 2020   |  | 2019      |  |
|---|--------|--|-----------|--|
|   | Number | Weighted average share price at date of exercise (p) | Number    | Weighted average share price at date of exercise (p) |
| Share options exercised in the financial period | –      | –  | 608,869   | 70.26  |
| SAYE awards outstanding at end of period        |        |  | 2020      | 2019   |
| Weighted average remaining contractual life     |        |  | 1.9 years | 2.9 years  |

Details of the weighted average fair value of the awards made in the year, together with how this value was calculated, can be found below.

The fair values of awards under the LTIP and the SAYE are calculated at the date of grant using the monte carlo simulation model and the binomial option pricing model respectively. The significant inputs into the model and assumptions used in the calculations are as follows:

|  | LTIP 2016-19 | LTIP 2017-20 | SAYE 2018-21 | SGP 2018-23 |
|--|--------------|--------------|--------------|-------------|
| Grant date   | 09.12.16     | 02.10.17     | 23.07.18     | 21.12.18    |
| Share price at grant date                              | 69.00p       | 82.00p       | 72.75p       | 71.50p      |
| Exercise price   | Nil          | Nil          | 67.30p       | Nil         |
| Number of shares under option or provisionally awarded | 473,000      | 1,483,583    | 811,734      |             |
| Option/award life (years)                              | 2.56         | 2.69         | 3.11         | 5.00        |
| Expected volatility                                    | 35%          | 33%          | 28%          | 29%         |
| Risk free rate   | 1.51%        | 0.76%        | 0.80%        | 0.91%       |
| Expected dividend yield                                | 4.00%        | 4.00%        | 4.19%        | 4.34%       |
| Forfeiture rate  | 0%           | 0%           | 0%           | 0%          |
| Fair value per option/award                            | 26.20p       | 42.80p       | 12.00p       |             |
| Total fair value of awards                             |              |              |              | £990,000    |

In respect of LTIP awards the expected volatility of the share price was based on historical movements in the share price, calculated as the standard deviation of percentage returns on the shares in the period since 2006. The risk free interest rate is based on the yield available on zero coupon UK Government bonds of a term consistent with the assumed option life. Projected dividend yield was based on historical dividend payments in the three years prior to the dates of the awards, relative to the average annual share prices in that period. A forfeiture rate of nil is assumed on the basis that awards are granted to senior management.

In respect of SGP, the expected volatility of the share price has been calculated using the volatility of the Company's TSR using daily data over a period commensurate with the remaining performance period as at the date of grant. The risk free interest rate has been set as the yield as at the calculation date on zero coupon Government bonds with remaining term commensurate with the projection period of the award life. Projected dividend yield was based on actual dividend yield at the date of grant. A forfeiture rate of nil is assumed on the basis that awards are granted to senior management.

The scheme rules for the LTIP includes a provision which gives the remuneration committee the discretion to settle up to 50 per cent of the value of shares to be awarded in cash. On the assumption that Appreciate intends to settle the entire obligation in shares, there is considered to be no present obligation and so these awards have been valued and accounted for as equity settled share-based payments.

All LTIP awards and the SGP incorporate a market condition (TSR), which is taken into account in the grant date measurement of fair value.

The Group recognised a total charge of £233,000 (2019 : £126,000) related to equity settled share-based transactions during the year ended 31 March 2020. This charge was split across the schemes as follows:

|                | 2020<br>£'000 | 2019<br>£'000 |
|----------------|---------------|---------------|
| LTIP 2015 – 18 | –             | 17            |
| LTIP 2016 – 19 | (12)          | 4             |
| LTIP 2017 – 20 | 12            | 13            |
| SGP 2018–23    | 198           | 54            |
| SAYE 2015–18   | –             | 9             |
| SAYE 2018–21   | 35            | 29            |
|                | <b>233</b>    | <b>126</b>    |



## Notes to the Accounts continued

### 22b Share-based payments continued

In July 2018, 338,716 LTIP awards were exercised. The Company issued 179,519 shares and withheld 159,197 in return for the Company settling the counter-parties' tax liabilities relating to the share-based payment. The fair value of these awards at the date of settlement, of £115,000, had been debited to equity.

### 23 Dividends

Amounts recognised as distributed to equity holders in the year:

|  | 2020<br>£'000 | 2019<br>£'000 |
|--|---------------|---------------|
| Interim dividend for the year ended 31 March 2019 of 1.05p (31 March 2018 : 1.00p) | 1,957         | 1,855         |
| Final dividend for the year ended 31 March 2019 of 2.15p (31 March 2018 : 2.05p)   | 4,006         | 3,813         |
|  | <b>5,963</b>  | <b>5,668</b>  |

Due to the outbreak of the Covid-19 pandemic, the Group decided it was prudent not to pay the interim dividend of 1.05p per share in respect of the financial year ended 31 March 2020 which was due to be paid on 6 April 2020. The Group have now been able to further assess forecast scenarios, current trading, trends since year end and reverse stress tests. Given the UK trading conditions continue to be uncertain, the Board do not consider it prudent to recommend a dividend for this financial year.

### 24 Reconciliation of profit for the year to net cash inflow/(outflow) from operating activities

|  | Group         |               | Company        |                |
|--|---------------|---------------|----------------|----------------|
|  | 2020<br>£'000 | 2019<br>£'000 | 2020<br>£'000  | 2019<br>£'000  |
| Profit for the year  | 5,511         | 8,882         | 7,095          | 4,719          |
| Adjustments for:   |               |               |                |                |
| Tax  | 2,189         | 2,422         | (406)          | (1,181)        |
| Interest income  | (1,481)       | (1,572)       | (143)          | (197)          |
| Interest expense   | 177           | -             | -              | -              |
| Research and development tax credit                              | -             | (54)          | -              | -              |
| Dividend from related party                                      | -             | -             | (10,000)       | (10,000)       |
| Depreciation and amortisation                                    | 1,659         | 1,394         | 235            | 260            |
| Impairment of property, plant and equipment/assets held for sale | 1,813         | 1,210         | -              | -              |
| Impairment of other intangibles                                  | 21            | -             | -              | -              |
| Impairment of goodwill   | 1,368         | 17            | -              | -              |
| Loss on sale of property, plant and equipment                    | 4             | -             | -              | -              |
| Decrease in other financial assets                               | 200           | -             | -              | -              |
| Decrease/(increase) in inventories                               | 1,734         | (766)         | -              | -              |
| Decrease/(increase) in trade and other receivables               | 2,968         | (1,589)       | 1,118          | (29)           |
| (Decrease)/increase in trade and other payables                  | (1,578)       | (877)         | (541)          | 455            |
| Movement in balances with related parties                        | -             | -             | (6,688)        | (271)          |
| Impairment of investment   | -             | -             | 924            | -              |
| (Decrease)/increase in provisions                                | (4,484)       | 10,274        | -              | -              |
| Increase in monies held in trust                                 | (3,442)       | (12,259)      | -              | -              |
| Movement in retirement benefit asset                             | (44)          | (215)         | (39)           | (42)           |
| Translation adjustment   | 18            | (3)           | -              | -              |
| Taxes paid on share-based payments                               | -             | (116)         | -              | (116)          |
| Share-based payments   | 233           | 126           | 233            | 126            |
| <b>Net cash inflow/(outflow) from operating activities</b>       | <b>6,866</b>  | <b>6,874</b>  | <b>(8,212)</b> | <b>(6,276)</b> |

### 25 Capital and other financial commitments

#### Group and Company

|  | 2020<br>£'000 | 2019<br>£'000 |
|--|---------------|---------------|
| Contracts placed for future capital expenditure not provided in the financial statements | 341           | 40            |

## 26 Related party transactions

### Group

Transactions between the Group's wholly owned subsidiaries, which are related party transactions, have been eliminated on consolidation and are therefore not disclosed in this note.

There are no transactions with key management personnel other than those disclosed in the directors' Remuneration Report and note 21.

### Company

The following transactions with subsidiaries occurred in the year:

|                    | 2020<br>£'000 | 2019<br>£'000 |
|--------------------|---------------|---------------|
| Dividends received | 10,000        | 10,000        |

### Sales and purchases of services and finance income

|   | 2020<br>£'000 | 2019<br>£'000 |
|---|---------------|---------------|
| Supply of services<br>To subsidiaries (IT services)     | –             | 1,742         |
| Finance income<br>Interest receivable from subsidiaries | –             | 69            |
| Purchase of services<br>From subsidiaries (rent)        | –             | 98            |

The Group did not charge for any intercompany IT services, interest or rental income in the year.

### Year end balances arising from transactions with subsidiaries

|   | 2020<br>£'000 | 2019<br>£'000 |
|---|---------------|---------------|
| Receivables from subsidiaries (note 12) | 27,583        | 11,947        |
| Payables to subsidiaries (note 17)      | 46,571        | 41,002        |

The payables to subsidiaries arise mainly due to cash collected on behalf of other subsidiaries. All balances are repayable on demand.

Appreciate Group plc acts as a treasury management function for the other Group companies, hence why the related party balances move despite no related party transactions taking place.

### Provisions against inter company loans

The receivables balances stated above are shown net of the following provisions:

|              | 2020<br>£'000 | 2019<br>£'000 |
|--------------|---------------|---------------|
| Subsidiaries | 10,967        | 11,368        |

The movement in the provision against inter company loans is as follows:

|                       | 2020<br>£'000 | 2019<br>£'000 |
|-----------------------|---------------|---------------|
| At 1 April            | (11,368)      | (11,303)      |
| Additional provisions | –             | (65)          |
| Amounts used          | –             | –             |
| Amounts recovered     | 401           | –             |
| At 31 March           | (10,967)      | (11,368)      |

## Notes to the Accounts continued

### 27 Financial instruments

The Group's activities expose it to a variety of risks: market risk (including interest rate and foreign currency risk), credit risk and liquidity risk. The Group has in place risk management policies that seek to limit the adverse effect on the financial performance of the Group by using various instruments and techniques.

The financial assets and financial liabilities of the Group and the Company are detailed below:

| Group                                     | Notes | Carrying amount and fair value 2020<br>£'000 | Carrying amount and fair value 2019<br>£'000 |
|---|-------|--|--|
| <b>Financial assets</b>                   |       |  |  |
| Monies held in trust                      | 14    | 102,693                                      | 99,251                                       |
| Financial assets – deposit at bank        | 13    | –  | 200  |
| Cash at bank and in hand                  | 15    | 29,632                                       | 36,868                                       |
| Trade receivables                         | 12    | 5,817  | 9,439  |
| Other receivables                         | 12    | 2,144  | 2,031  |
|   |       | <b>140,286</b>                               | <b>147,789</b>                               |
| <b>Financial liabilities</b>              |       |  |  |
| Bank overdraft                            | 17    | –  | 2,305  |
| Trade payables                            | 17    | 57,150                                       | 61,191                                       |
| Payables in respect of cards and vouchers | 17    | 17,060                                       | 14,193                                       |
| Other payables                            | 17    | 2,317  | 2,584  |
| Lease liabilities                         | 19    | 4,351  | –  |
|   |       | <b>80,878</b>                                | <b>80,273</b>                                |
| <b>Company</b>                            |       |  |  |
| <b>Financial assets</b>                   |       |  |  |
| Cash at bank and in hand                  | 15    | 28,769                                       | 35,872                                       |
| Receivables from subsidiaries             | 12    | 27,583                                       | 11,947                                       |
| Other receivables                         | 12    | 384  | 882  |
|   |       | <b>56,736</b>                                | <b>48,701</b>                                |
| <b>Financial liabilities</b>              |       |  |  |
| Bank overdraft                            | 17    | –  | 221  |
| Trade payables                            | 17    | 2  | 197  |
| Payables to subsidiaries                  | 17    | 46,571                                       | 41,002                                       |
| Other payables                            | 17    | 157  | 208  |
|   |       | <b>46,730</b>                                | <b>41,628</b>                                |

For further details of each of the financial assets and financial liabilities, see note numbers as detailed above.

Due to their relatively short maturity, the carrying amounts of all financial assets and financial liabilities approximate to their fair values.

The provisions for unredeemed vouchers and corporate gifted cards are not a financial liability and are therefore excluded from the table above.

#### Interest rate risk

Due to the significant levels of cash and cash equivalents held by the Group and in trust, the Group has an exposure to interest rates. In respect of all other financial assets and liabilities, the Group does not have any interest rate exposure.

A 0.5 per cent movement in the interest rate applied to cash and cash equivalents, monies held in trust and other current financial assets would change the profit before tax (PBT) by approximately £851,000 (2019 : 0.5 per cent movement would change the PBT by approximately £845,000).

### **Foreign currency risk**

The Group buys and sells goods denominated in non-sterling currencies, principally euros. As a result, movements in exchange rates can affect the value of the Group's income and expenditure. The Group's exposure in this area is not considered to be significant.

### **Credit risk**

Credit risks arise principally from the Group's cash and cash equivalents, monies held in trust and trade receivables.

The Group gives careful consideration to which organisations it uses for its banking services in order to minimise credit risk. The Group seeks to limit the level of credit risk on its cash balances by only placing funds with UK counterparties that have high credit ratings.

Credit evaluations are performed for all customers. Management has a policy in place and the exposure to credit risk is monitored on an ongoing basis. The majority of trade receivables are subject to credit insurance, which further reduces credit risk.

At the year end there were no significant concentrations of risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

### **Liquidity risk**

The Group manages liquidity risk by continuously monitoring actual and forecast cash flows and by matching the maturity profiles of financial assets and liabilities. The Group generates operational cash flows which enable it to meet its liabilities as they fall due. The Group maintains an e-money float, regulated by the Financial Conduct Authority, to hold e-monies totally separate from Group funds. The Group is entitled to make limited draw downs from the PPPT subject to specific conditions being met as set out in the trust deed, available from [www.getpark.co.uk](http://www.getpark.co.uk).

The Group recently agreed a committed £15m revolving credit facility with Santander. Further detail on this can be found in note 28.

Details of the maturity of financial liabilities can be found in note 17. Comments on the Group's liquidity position and financial risk are set out on page 21 of the Financial Review and pages 32 to 34, the Group's risk factors. Comments on provisions, an area of concentration of risk, can be found in note 18.

### **Capital management**

The Group's objectives in managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Group's capital management focus is to ensure that it has adequate working capital, including management of its draw down facility with the PPPT and the extent to which net cash inflows from prepaid corporate customers are available to meet the Group's liabilities as they fall due.

Park Financial Services Limited, a Group subsidiary offering insurance broking services, and Park Card Services Limited, a Group subsidiary operating as an electronic money issuer, are subject to Financial Conduct Authority capital requirements. Both companies report twice annually to the Financial Conduct Authority on the level of regulatory capital each company holds. The capital requirements were adhered to in the period. Voluntary trust arrangements are in place to provide some protection for the customers of our Christmas prepayment scheme. Further details of the trust are set out in note 14.

The Group's capital base includes share capital, share premium account and retained earnings.

Capital is reported monthly as part of the internal management accounts and is also included in budgeting and forecasting exercises. The ability to pay dividends is dependent on the parent Company having distributable profits. It is management's intention to manage the Group's and the Company's capital to maintain its ability to pay dividends.

## **28 Subsequent events**

### **Sale of Valley Road Birkenhead**

In December 2018 the Group announced a new strategy that included relocating the head office from Birkenhead to Liverpool city centre to an office environment that allowed for more collaborative working and was better positioned to improve retention of staff and recruitment of new talent. In September 2019 the business successfully relocated the majority of staff to Liverpool with some operational departments remaining in Birkenhead. At this point, the net asset value of the property situated in Birkenhead, was transferred from property, plant and equipment to assets held for sale on the Group balance sheet. This property was owned by Budworth Properties Limited, a Group subsidiary. On 10 August 2020 Budworth Properties Limited was sold to HP (Valley Road) Limited for £3.2m and as part of the transaction the Group has leased back space for the small number of remaining operational staff. The balance sheet reflects the expected disposal of this asset, which is classified as an asset held for sale, following the previously announced impairment charge to the statement of profit or loss of £1.8m. The value of the disposal supports the recognised carrying value as at 31 March 2020, meaning no further impairment charge is necessary.

**Notes to the Accounts** continued**28 Subsequent events** continued***Proposed closure of packing operations***

In July 2020, the Group announced to customers that it would not be supplying hampers and merchandise for 2020 due to health and safety concerns relating to the ability to pack these products within social distancing rules and the risk of receiving components due to shortages in stock or distribution problems following the impact of Covid-19. In August 2020 the Group announced to staff that it was commencing a period of consultation about the proposed closure of our packing business including hamper packing, third party packing and provision of storage. If this decision is confirmed, following a period of consultation with staff, it is expected that operation of the packing business will cease by the end of 2020. As the company owning the land and buildings at Valley Road, where the hamper packing business is based has been sold and a short term lease has been taken to allow the wind down of the business, no charge is expected in the financial statements for 2020/21. Following consultation with staff, if no suitable alternative employment can be found, any redundancy costs will be charged to the statement of profit or loss and treated as exceptional costs. The net cost of this, excluding any customer cancellations or margin erosion from switching to alternative products, is expected to be approximately £0.3m. Within the financial statements for the year ended 31 March 2020 we have already recognised a charge of £0.1m to write down the associated stock products held at year end to their net realisable value. This charge has been recognised as an exceptional charge in the period (see note 11). There are no other expected costs relating to this decision.

***Bank financing***

We have completed a bank financing exercise, securing a 5 year revolving credit facility (RCF) with Santander of £15m plus an additional accordion of £10m. This facility will provide the additional financial flexibility to protect against downside risk in the short term; whilst enabling longer term growth, as well as investing in the continued switch to digital products. The RCF has 3 covenant requirements, as detailed within the going concern section of the Accounting Policies on pages 71 to 73.

***Government support***

Since 31 March the Group has taken advantage of both the Government's Job Retention Scheme and deferral of VAT payments. Details of both are given in the going concern statement on pages 71 to 73.

## Notice of Annual General Meeting 2020

Notice is hereby given that the thirty-seventh annual general meeting of Appreciate Group plc (the 'Company') will be held at Fourth Floor, 20 Chapel Street, Liverpool, L3 9AG on Tuesday 29 September 2020, at 11.00am for the following purposes:

### To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

1. To receive the Company's annual accounts and the directors' and auditors' reports for the financial year ended 31 March 2020.
2. To approve the Remuneration Report of the directors for the financial year ended 31 March 2020.
3. To re-elect Laura Carstensen, who retires by rotation and offers herself for re-election, as a director of the Company.
4. To re-elect John Gittins, who retires by rotation and offers himself for re-election, as a director of the Company.
5. To re-appoint Sally Cabrini, who has been appointed by the board of directors since the date of the last annual general meeting, as a director of the Company.
6. To re-appoint Ernst & Young LLP as auditors of the Company.
7. To authorise the directors to determine the remuneration of the auditors.
8. That, pursuant to section 551 of the Companies Act 2006 (the 'Act'), the directors are generally and unconditionally authorised to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company, but so that:
  - (a) the maximum amount of shares that may be allotted or made the subject of rights under this authority are shares with an aggregate nominal amount of £1,242,315;
  - (b) (unless previously revoked, varied or renewed) this authority shall expire at the close of business on 29 December 2021 or, if earlier, at the conclusion of the next annual general meeting of the Company after the passing of this resolution;
  - (c) the Company may make an offer or agreement before this authority expires which would or might require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after this authority expires and the directors may allot shares or grant such rights pursuant to any such offer or agreement as if this authority had not expired; and
  - (d) all existing authorities under section 551 of the Act vested in the directors on the date of the notice of this meeting that remain unexercised at the commencement of the meeting are revoked.

### To consider and, if thought fit, to pass the following resolution as a special resolution:

9. That, subject to the passing of resolution 8, the directors are empowered pursuant to sections 570 and 573 of the Act to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority granted by resolution 8 or by way of a sale of treasury shares as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
  - (a) in connection with an offer of equity securities (whether by way of a rights issue, open offer or other pre-emptive offer):
    - (i) to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and
    - (ii) to holders of other equity securities in the capital of the Company, as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,
 but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and
  - (b) otherwise than pursuant to sub-paragraph (a) of this resolution, up to a maximum aggregate nominal amount of £186,347, and shall expire on the revocation or expiry (unless renewed) of the authority conferred on the directors by resolution 8 in the notice of this meeting, save that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted for cash after this power expires and the directors may allot equity securities for cash pursuant to any such offer or agreement as if this power had not expired. This power is in substitution for and revokes all existing powers under sections 570 and 573 of the Act vested in the directors on the date of the notice of this meeting that remain unexercised at the commencement of the meeting. References in this resolution to the allotment of equity securities include the sale of ordinary shares in the Company that immediately before the sale were held by the Company as treasury shares.

**By order of the board**  
**R Fairbrother**  
Company Secretary  
Valley Road  
Birkenhead CH41 7ED  
28 August 2020



## Notice of Annual General Meeting 2020 continued

### Notes:

#### *Entitlement to attend and vote*

1. In light of the ongoing need to reduce the public health risks posed by the transmission of the coronavirus (COVID-19), the continuing Government guidance concerning the need for social distancing, and the advice that only absolutely necessary participants should physically attend meetings, and as permitted by the Corporate Insolvency and Governance Act 2020, shareholders will not be permitted to attend the AGM in person. Every eligible shareholder does, however, have the right to appoint another person (or two or more persons in respect of different shares held by him or her) as his or her proxy to exercise all or any of his or her rights in relation to the AGM. A proxy need not be a member of the Company. The appointment of a proxy in relation to the AGM will, however, be subject to the special arrangements in these Notes or any alternative arrangements that the Board of Directors (**the Board**) considers necessary to ensure the validity of the meeting.
2. Shareholders who wish to vote at the AGM should appoint the Chair of the meeting as their proxy in order to do so. No other person(s) appointed as proxy will be permitted to attend the AGM in person unless the Board decides otherwise. Subject to any other decision by the Board, if a shareholder appoints some other person or persons as proxy, such shareholder shall be deemed to have appointed the Chair of the meeting and not the other named person(s) as their proxy.
3. The right of a shareholder to attend and vote at the meeting is determined by reference to the register of members. Only those shareholders registered in the register of members of the Company as at 11.00am on Sunday 27 September 2020 (or, if the meeting is adjourned, at the time which is 48 hours before the time of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after that time shall be disregarded in determining the rights of any person to attend or vote (and the number of votes they may cast) at the meeting. Reference in this Note to the right to attend the AGM shall as regards attendance at the meeting in person be read subject to Note 1 above.

#### *Proxies*

4. A shareholder may appoint a proxy by completing and submitting a proxy appointment form. A proxy appointment form is enclosed with this document. To be valid, a proxy appointment form must be completed in accordance with the instructions that accompany it and then delivered (together with any letter or power of attorney under which it is signed or a duly certified copy of such letter or power, unless such authority has previously been registered with the Company) by post or (during normal business hours only) by hand so as to be received at the Company's registered office at Valley Road, Birkenhead, CH41 7ED by no later than 11.00am on Sunday 27 September 2020 (or, if the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting).

#### *Corporate representatives*

5. A shareholder which is a corporation may authorise one or more persons to act as its representative(s) at the AGM in accordance with section 323 of the Companies Act 2006. Any such representative should bring to the meeting written evidence of his or her appointment, such as a certified copy of a board resolution of, or a letter from the corporation concerned confirming the appointment. Please note that, unless the Board decides otherwise, a person other than the Chair of the meeting who is appointed as a representative will not be permitted to attend the meeting in person.

# Directors and Advisers

|                           |  |
|---------------------------|--|
| <b>Directors:</b>         | I O'Doherty <sup>◊</sup><br>T Clancy<br>L Carstensen (Non-executive Chairman) <sup>*†◊</sup><br>M de Kare-Silver (Non-executive until 24 September 2019) <sup>*†◊</sup><br>J Gittins (Non-executive) <sup>*†◊</sup><br>Sally Cabrini (Non-executive from 25 September 2019) <sup>*†◊</sup> |
| <b>Secretary:</b>         | R Fairbrother  |
| <b>Registered office:</b> | Valley Road<br>Birkenhead<br>CH41 7ED<br>Registered in England No 1711939  |
| <b>Nominated adviser:</b> | Liberum Capital Limited<br>Ropemaker Place<br>25 Ropemaker Street<br>London<br>EC27 9LY  |
| <b>Merchant bankers:</b>  | N M Rothschild & Sons Limited<br>82 King Street<br>Manchester<br>M2 4WQ  |
| <b>Auditors:</b>          | Ernst & Young LLP<br>20 Chapel Street<br>Liverpool<br>L3 9AG   |
| <b>Stockbrokers:</b>      | Liberum Capital Limited<br>Ropemaker Place<br>25 Ropemaker Street<br>London<br>EC2Y 9LY  |
| <b>Bankers:</b>           | Barclays Bank PLC<br>3 Hardman Street<br>Manchester<br>M3 3AX  |
| <b>Registrars:</b>        | Computershare Investor Services PLC<br>The Pavilions<br>Bridgwater Road<br>Bristol<br>BS99 6ZZ   |

\* Member of the audit committee

† Member of the remuneration committee

◊ Member of the nomination committee

**Appreciate Group plc**  
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Merseyside  
CH41 7ED

**[www.appreciategroup.co.uk](http://www.appreciategroup.co.uk)**