

Registered number: 04155659

THE GRASS ROOTS GROUP UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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THE GRASS ROOTS GROUP UK LIMITED

COMPANY INFORMATION

Directors	P Gurney (appointed 6 October 2016) M Howe (appointed 6 October 2016) J Kenny (appointed 6 October 2016) M Verman (appointed 7 October 2016) I Digby (appointed 7 October 2016, resigned 6 October 2016) A Lister (appointed 7 October 2016, resigned 6 October 2016) I D Horsham (resigned 6 October 2016) P A Bartlett (resigned 6 October 2016) Z H Patel (resigned 6 October 2016)
Company secretary	M Wainhouse
Registered number	04155659
Registered office	Pennyroyal Court Station Road Tring Hertfordshire HP23 5QY
Independent auditors	Ernst & Young LLP 400 Capability Green Luton Bedfordshire LU1 3LU
Bankers	Lloyds TSB Bank plc Black Horse House Progression Centre 42 Mark Road Hemel Hempstead Hertfordshire HP2 7DW
Solicitors	Eversheds 115 Colmore Row Birmingham B3 3AL

THE GRASS ROOTS GROUP UK LIMITED

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THE GRASS ROOTS GROUP UK LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED DECEMBER 31, 2016

Introduction

The directors present their strategic report for the year ended 31 December 2016.

Business review

The principal activity of the company during the year was the provision of employee, customer and channel engagement programmes and promotions. These services help our clients engage with their employees, channel partners, customers and prospects, to improve their business performance.

The company's key performance indicators were as follows:

Turnover decreased by 35% to £116 million, this was due to the closure of a large loyalty programme. Gross profit decreased by 3% to £30.5 million and gross profit margin increased by 9% to 26%. Operating margin increased from 4.2% to 5.6%.

Shareholders' funds have increased by £6 million to £12.5 million which largely represents the profit in the year.

Principal risks and uncertainties

The company's business does not expose it to any risks other than those associated with normal commercial trading. The group performs a comprehensive review of risks each year across all business. Each business leader is involved in the review and tasked with identification of risks, actions to mitigate and implementing plans to address risks. The top two specific to the company are identified below:

- Failure of our infrastructure may result in non-delivery of agreed services to clients resulting in loss of business reputational risks and potential legal claims. The company invests heavily in its IT infrastructure and employees to ensure this risk is mitigated.
- As part of the trading activities the company receives money on behalf of clients. The directors recognise that there are specific issues when dealing money on behalf of third parties.
- The company's principal financial assets are trade debtors. In order to manage credit risk the director sets limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history.

The directors are satisfied that the procedures and controls that have been put in place are robust and appropriate for the nature of the business in which The Grass Roots Group UK Limited engages.

Future Developments

The Parent Company, The Grass Roots Group Holdings Limited was acquired by Blackhawk Network Inc on 6th October 2016. This change of ownership will give the Grass Roots businesses investment and impetus to grow the business and in particular develop new and innovative products for the UK market.

This report was approved by the board on September 27, 2017 and signed on its behalf.


P Gurney
Director

THE GRASS ROOTS GROUP UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED DECEMBER 31, 2016

The directors present their report and the financial statements for the year ended December 31, 2016.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Results and dividends

The profit for the year, after taxation, amounted to £6.1million (2015 - £6.2 million).

The directors do not recommend the payment of a dividend (2015: £nil).

Directors

The directors who served during the year were:

P Gurney (appointed 6 October 2016)
M Howe (appointed 6 October 2016)
J Kenny (appointed 6 October 2016)
M Verman (appointed 7 October 2016)
I Digby (appointed 7 October 2016, resigned 6 October 2016)
A Lister (appointed 7 October 2016, resigned 6 October 2016)
I D Horsham (resigned 6 October 2016)
P A Bartlett (resigned 6 October 2016)
Z H Patel (resigned 6 October 2016)

Going Concern

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

THE GRASS ROOTS GROUP UK LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2016

Research and development activities

Investing in Research and Development programmes delivers product innovation within The Grass Roots Group UK Limited. Expenditure in 2016 on research and development amounted to £0.5 million (2015: £0.2m). This is in line with expectations and our focus on innovation.

Employee involvement

The team remains as committed and enthusiastic as always. The Grass Roots Group UK Limited increasingly successful profile allows it to attract and hire some of the best talent in the market place. The board of directors are committed to invest time and resources in our most valuable asset, our people.

The Company is ever mindful of the importance and value of its employees and ensures that employees are informed and involved regarding matters affecting them as employees and on the various factors affecting the performance of the company.

Disabled employees

We strive to be a genuinely equal opportunities employer, judging applicants solely on the basis of what they can contribute to our company and how we can help them achieve their full potential. The same philosophy underpins their subsequent advancement and promotion. As a consequence, we are able to promote the causes of disability and diversity to clients on the basis of solid experience rather than empty rhetoric. In the event of staff becoming disabled every effort is made to ensure that their employment with the company continues and disabled applicants are welcome.

Modern Slavery Act

Grass Roots have published a Modern Slavery and Human Trafficking Statement on our corporate website www.grassrootsgroup.com, in line with legislative requirements.

Qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the director's report. The maximum liability guaranteed on behalf of directors is £5 million.

Disclosure of information to auditors

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

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

THE GRASS ROOTS GROUP UK LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016**

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Auditors

Ernst & Young LLP have resigned as auditors and will not audit the financial statements of the company for the year ended December 31, 2017.

This report was approved by the board on September 27, 2017 and signed on its behalf.

A handwritten signature in black ink, appearing to be 'P Gurney', written over a horizontal line.

P Gurney
Director

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF THE GRASS ROOTS GROUP UK LIMITED

We have audited the financial statements of The Grass Roots Group UK Limited for the year ended December 31, 2016 which comprise Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 Auditors' 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.

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at December 31, 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF THE GRASS ROOTS GROUP UK
LIMITED (CONTINUED)**

Opinion on other matter 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.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

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

Ernst + Young LLP

**Stuart Darrington (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Luton**

September 27, 2017

THE GRASS ROOTS GROUP UK LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016**

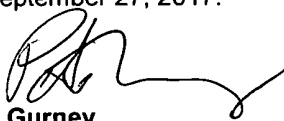
	Note	2016 £000	2015 £000
Turnover	3	115,957	178,538
Cost of sales		(85,488)	(147,084)
Gross profit		<u>30,469</u>	<u>31,454</u>
Administrative expenses		(24,105)	(23,976)
Operating profit	4	<u>6,364</u>	<u>7,478</u>
Interest receivable and similar income	8	272	253
Profit before tax		<u>6,636</u>	<u>7,731</u>
Tax on profit	9	(575)	(1,509)
Profit for the year		<u><u>6,061</u></u>	<u><u>6,222</u></u>
 Total comprehensive income for the year		 <u><u>6,061</u></u>	 <u><u>6,222</u></u>
All amounts relate to continuing operations.			

THE GRASS ROOTS GROUP UK LIMITED
REGISTERED NUMBER:04155659

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016

	Note	2016 £000	2015 £000
Fixed assets			
Intangible assets	10	368	215
Tangible assets	11	320	377
Investments	12	50	50
Deferred tax asset	17	157	242
		<u>895</u>	<u>884</u>
Current assets			
Inventories and work in progress	13	1,301	2,847
Debtors: amounts falling due within one year	14	45,838	45,851
Cash at bank and in hand	15	39	3,242
		<u>47,178</u>	<u>51,940</u>
Creditors: amounts falling due within one year	16	(34,508)	(45,580)
Net current assets		<u>12,670</u>	<u>6,360</u>
Total assets less current liabilities		<u>13,565</u>	<u>7,244</u>
Provisions for liabilities			
Other provisions	20	(1,133)	(873)
		<u>(1,133)</u>	<u>(873)</u>
Net assets		<u>12,432</u>	<u>6,371</u>
Capital and reserves			
Called up share capital	24	50	50
Profit and loss account		12,382	6,321
		<u>12,432</u>	<u>6,371</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on September 27, 2017.


P Gurney
 Director

The notes on pages 11 to 31 form part of these financial statements.

THE GRASS ROOTS GROUP UK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At January 1, 2016	50	6,321	6,371
Comprehensive income for the year			
Profit for the year	-	6,061	6,061
	<hr/>	<hr/>	<hr/>
Other comprehensive income for the year	-	-	-
	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	6,061	6,061
	<hr/>	<hr/>	<hr/>
Total transactions with owners	-	-	-
	<hr/>	<hr/>	<hr/>
At December 31, 2016	50	12,382	12,432
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

THE GRASS ROOTS GROUP UK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At January 1, 2015	50	99	149
Comprehensive income for the year			
Profit for the year	-	6,222	6,222
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	6,222	6,222
Total transactions with owners	-	-	-
At December 31, 2015	50	6,321	6,371

The notes on pages 11 to 31 form part of these financial statements.

THE GRASS ROOTS GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

1. Accounting policies

Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 2).

The following principal accounting policies have been applied:

1.1 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

1.2 Going concern

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

THE GRASS ROOTS GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

1. Accounting policies (continued)

1.3 Revenue

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

Revenue from reward and communication schemes is brought into accounts across the period of the campaign. Revenue from the sale of goods and vouchers is recognised when the significant risks and rewards of ownership of the goods and vouchers have passed to the buyer, on dispatch of the goods and vouchers.

1.4 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Software is amortised over a useful economic life of 36 months (33%).

1.5 Tangible fixed assets

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

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

Depreciation is provided on the following basis:

Plant and machinery	-	33%
Motor vehicles	-	25%
Fixtures and fittings	-	20%

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

1.6 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

THE GRASS ROOTS GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

1. Accounting policies (continued)

1.7 Inventories and work in progress

Vouchers and evouchers for resale are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Amounts recoverable on contracts are valued at cost, which includes outlay incurred on behalf of clients on incomplete assignments. Provision is made for irrecoverable costs where appropriate.

1.8 Debtors

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

1.9 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.10 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The Company classifies all of its financial assets as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

THE GRASS ROOTS GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

1. Accounting policies (continued)

1.10 Financial instruments (continued)

Financial liabilities

The Company classifies all of its financial liabilities as liabilities at amortised cost.

At amortised cost

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Statement of Financial Position.

1.11 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

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

1.12 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

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

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

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

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

THE GRASS ROOTS GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

1. Accounting policies (continued)

1.13 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Statement of Comprehensive Income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Statement of Financial Position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Company keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to Statement of Comprehensive Income over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the Statement of Comprehensive Income is charged with fair value of goods and services received.

1.14 Research and Development

Under IAS 38, Research and Development costs can be recognised as an intangible asset only if, the following criteria are met:

- it is probable that future economic benefits from the asset will flow to the entity
- the cost of the asset can reliably be measured

When it is impossible to demonstrate whether or not a product or service at the research stage will generate any probable future economic benefit, IAS 38 states that all expenditure incurred at the research stage should be written off to the income statement as an expense when incurred, and will never be capitalised as an intangible asset.

However, under IAS 38, an intangible asset from development must be capitalised only if it can be demonstrated that all of the following criteria are met:

- the technical feasibility of completing the intangible asset (so that it will be available for use or sale)
- intention to complete and use or sell the asset
- ability to use or sell the asset
- existence of a market or, if to be used internally, the usefulness of the asset
- availability of adequate technical, financial, and other resources to complete the asset
- the cost of the asset can be measured reliably.

Where all these criteria are met, the Company will capitalise Development costs as an intangible asset, which will be amortised over its useful life.

THE GRASS ROOTS GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

1. Accounting policies (continued)

1.15 Operating leases

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

1.16 Pensions

Defined contribution pension plan

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

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

1.17 Interest income

Interest income is recognised in the Income Statement using the effective interest method.

1.18 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

1.19 Unredeemed bonusbond and supercheques

Unredeemed Bonusbonds are stated in the balance sheet at the face value of Bonusbonds outstanding, less an estimate of discount payable by retailers on redemption and after excluding the value of bonds which, it is estimated by the directors, will never be presented for redemption.

Unredeemed Supercheques are stated in the balance sheet at the face value of cheques outstanding.

Unredeemed Bonusbonds and Supercheques are held on the balance sheet until after their expiry date.

THE GRASS ROOTS GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

1. Accounting policies (continued)

1.20 Current and deferred taxation

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

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

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

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

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

THE GRASS ROOTS GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

2. Judgments in applying accounting policies and key sources of estimation uncertainty

In the process of applying the accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements;

The key assumptions concerning the future and any other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the company. Such changes are reflected in the assumptions when they occur.

Fair value measurement of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is determined using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility.

Deferred tax assets

Deferred tax assets are raised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Assessment of future taxable profit is performed at every reporting date. Details of deferred taxation can be found in note 17. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

Share based payments

The company operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the entity. The fair value of the employee services received is measured by reference to the estimated fair value at the grant date of equity instruments granted and is recognised as an expense over the vesting period. The estimated fair value of the option granted is calculated using the Black Scholes option pricing model. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. Detail of share based payment can be found in note 23.

THE GRASS ROOTS GROUP UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

3. Turnover

An analysis of turnover by class of business is as follows:

	2016	2015
	£000	£000
Services rendered	42,637	28,809
Sales - Domestic	73,320	149,729
	115,957	178,538

Analysis of turnover by country of destination:

	2016	2015
	£000	£000
United Kingdom	113,190	171,138
Rest of the world	2,767	7,400
	115,957	178,538

4. Operating profit

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

	2016	2015
	£000	£000
Research & development charged as an expense	453	408
Depreciation of tangible fixed assets	210	391
Amortisation	98	201
Exchange differences	(247)	-
Defined contribution pension cost	576	587
Profit/(loss) on sale of fixed assets	-	(14)
Operating lease rentals:		
- plant and machinery	67	67
- land and buildings	579	579

THE GRASS ROOTS GROUP UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

5. Auditors' remuneration

The company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company:

	2016	2015
	£000	£000
Fees for assurance services	64	83
Other fees payable	5	4
	69	87

6. Employees

Staff costs, including directors' remuneration, were as follows:

	2016	2015
	£000	£000
Wages and salaries	15,372	15,548
Social security costs	1,537	1,501
Cost of defined contribution scheme	576	587
	17,485	17,636

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

	2016	2015
	No.	No.
Business Development	27	12
Customer Service & Operations	130	126
Functional Specialist	171	171
Leadership	3	11
Relationship Management	87	86
	418	406

THE GRASS ROOTS GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

7. Directors' remuneration

	2016 £000	2015 £000
Directors' emoluments	879	518
Company contributions to defined contribution pension schemes	75	55
	<u>954</u>	<u>573</u>

Included in the directors emoluments above is the expense recognised during the year for compensation paid for the loss of office for 7 directors (2015: nil) of £109k (2015: £nil). The number of directors who exercised share options and received shares were 7 (2015 – nil).

During the year retirement benefits were accruing to 7 directors (2015: 4) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £151k (2015 - £152k) and compensation for the loss of office of £1k (2015 - £nil).

The value of the company's contribution paid to a defined contribution pension scheme in respect of the highest paid director amounted to £15k (2015 - £15k).

The highest paid director exercised share options during the year and also received shares under the group's incentive scheme.

Remuneration for certain directors has been borne by a related company. The directors are also directors or officers of a number of the companies within the Grass Roots Group Holdings Limited. Their directors' services to the company do not occupy a significant amount of time. As such these directors do not consider that they have received any remuneration for their incidental services to the company for the period.

8. Interest receivable

	2016 £000	2015 £000
Bank interest receivable	272	253
	<u>272</u>	<u>253</u>

THE GRASS ROOTS GROUP UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

9. Taxation

	2016	2015
	£000	£000
Corporation tax		
Current tax on profits for the year	559	1,267
Adjustments in respect of previous periods	(69)	-
	<u>490</u>	<u>1,267</u>
Total current tax	<u>490</u>	<u>1,267</u>
Deferred tax		
Origination and reversal of timing differences	35	232
Changes to tax rates	17	10
Adjustment in respect of prior periods	33	-
Total deferred tax	<u>85</u>	<u>242</u>
Taxation on profit on ordinary activities	<u>575</u>	<u>1,509</u>

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2015 - *lower than*) the standard rate of corporation tax in the UK of 20% (2015 - 20.25%). The differences are explained below:

	2016	2015
	£000	£000
Profit on ordinary activities before tax	<u>6,636</u>	<u>7,731</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20.25%)	<u>1,327</u>	<u>1,566</u>
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	(19)	16
Difference in tax rates	17	-
Adjustments to tax charge in respect of prior periods	(37)	(30)
Other timing differences leading to an increase (decrease) in taxation	-	10
Group relief	(713)	(53)
Total tax charge for the year	<u>575</u>	<u>1,509</u>

THE GRASS ROOTS GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

9. Taxation (continued)

Factors that may affect future tax charges

In the 2016 Budget, the Chancellor announced that the main rate of UK corporation tax will be reduced from 19% to 17% effective 1 April 2020. Finance Act 2016 received Royal Assent in September 2016 and the rates are therefore substantively enacted prior to the balance sheet date. As the rates were substantively enacted by the balance sheet date, the closing deferred tax balances have been calculated at 17%.

10. Intangible assets

	Software £000
Cost	
At 1 January 2016	1,910
Additions	252
At December 31, 2016	<u>2,162</u>
Amortisation	
At 1 January 2016	1,695
Charge for the year	98
At December 31, 2016	<u>1,793</u>
Net book value	
At December 31, 2016	<u>369</u>
At December 31, 2015	<u>215</u>

Additions for the year includes £245k that is not depreciated due to assets being under construction.

THE GRASS ROOTS GROUP UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

11. Tangible assets

	Plant and machinery £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
Cost or valuation				
At 1 January 2016	1,154	270	1,072	2,496
Additions	100	-	55	155
Disposals	-	(88)	-	(88)
At December 31, 2016	<u>1,254</u>	<u>182</u>	<u>1,127</u>	<u>2,563</u>
Depreciation				
At 1 January 2016	890	248	981	2,119
Charge for the period on owned assets	172	12	26	210
Disposals	-	(86)	-	(86)
At December 31, 2016	<u>1,062</u>	<u>174</u>	<u>1,007</u>	<u>2,243</u>
Net book value				
At December 31, 2016	<u>192</u>	<u>8</u>	<u>120</u>	<u>320</u>
At December 31, 2015	<u>264</u>	<u>22</u>	<u>91</u>	<u>377</u>

THE GRASS ROOTS GROUP UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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12. Investments

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2016	50
At December 31, 2016	<u>50</u>
Net book value	
At December 31, 2016	<u>50</u>
At December 31, 2015	<u>50</u>

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Country of incorporation	Holding	Class of Shares
Projectlink Motivation Limited	United Kingdom	100 %	Ordinary

Projectlink Motivation Limited is a dormant company.

13. Inventories and work in progress

	2016 £000	2015 £000
Vouchers held for sale	1,218	2,272
Amounts recoverable on contracts	83	575
	<u>1,301</u>	<u>2,847</u>

The total amount recognised as an expense in the year ended 31 December 2016 with respect to items fulfilled inventory was £67.3 million.

THE GRASS ROOTS GROUP UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

14. Debtors

	2016 £000	2015 £000
Trade debtors	18,748	23,254
Amounts owed by group undertakings	25,376	20,558
Other debtors	1,226	1,494
Prepayments and accrued income	488	545
Total	45,838	45,851

The amounts owed by group undertakings are repayable on demand and non-interest bearing.

15. Cash and cash equivalents

	2016 £000	2015 £000
Cash at bank and in hand	39	3,242
	39	3,242

16. Creditors: Amounts falling due within one year

	2016 £000	2015 £000
Trade creditors	4,813	8,402
Amounts owed to group undertakings	-	1,215
Other taxation and social security	1,528	1,254
Other creditors	3,597	14,015
Accruals and deferred income	24,570	20,694
	34,508	45,580

The amounts owed to group undertakings are payable on demand and non-interest bearing.

THE GRASS ROOTS GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

17. Deferred Tax

	2016 £000	2015 £000
At beginning of year	242	484
Charged to profit and loss	(85)	(242)
At end of year	157	242

The deferred tax asset is made up as follows:

	2016 £000	2015 £000
Accelerated capital allowances	131	151
Other timing differences	26	91
	157	242

Deferred tax recognised relates to bad debt provision and pension accrual. The company has fully recognised the deferred tax asset on the basis that the company is expected to continue to make taxable profits in the future.

THE GRASS ROOTS GROUP UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

18. Financial instruments

	2016	2015
	£000	£000
Financial assets		
Financial assets available for sale	50	50
Financial assets that are debt instruments measured at amortised cost	45,388	73,169
	<u>45,438</u>	<u>73,219</u>
Financial liabilities		
Financial liabilities measured at amortised cost	(32,980)	(54,022)
	<u>(32,980)</u>	<u>(54,022)</u>

Financial assets available for sale comprise investment in a wholly owned subsidiary.

Financial assets loans and receivables comprise cash, trade debtors, other debtors and amounts owed by group undertakings.

Financial liabilities measured at amortised cost comprise trade creditors, other creditors, accruals and amounts owed to group undertakings.

19. Commitments under operating leases

At December 31, 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2016	2015
	£000	£000
Within 1 year	321	253
Between 2 and 5 years	-	500
After more than 5 years	-	-
	<u>321</u>	<u>753</u>

The company has entered into commercial leases on certain properties. Most are now on rolling agreements of between three and twelve months. The longest lease has a full term of six years, with the option to break after three years.

THE GRASS ROOTS GROUP UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

20. Provisions

	Dilapidation £000
At January 1, 2016	873
Charged to profit or loss	260
At December 31, 2016	1,133

The provision is in respect of dilapidation on leasehold properties.

21. Related party transactions

The company has taken advantage of the exemption available for wholly owed subsidiaries from disclosing related party transactions with other wholly owned subsidiaries of Blackhawk Network Inc.

During the year the company made sales of £202k to parties related to WPP PLC. WPP PLC was an associate company of the Group prior to the acquisition by Blackhawk Network Inc.

Included in debtors ledger was 57k outstanding at balance sheet date due from parties related to WPP PLC.

22. Cash held on behalf of clients

At 31 December 2016 the company held £43,543,907 (2015: £36,152,730) in client accounts. These amounts are not included in the company's balance sheet.

THE GRASS ROOTS GROUP UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

23. Share-based payment plans

Approved and Unapproved Employee Share Option Schemes

Share options in The Grass Roots Group Holdings Limited can be granted to senior executives of the Grass Roots Group UK Limited. The exercise price of the options is equal to the market value of the shares at the time that the option is granted.

During the year ended 31 December 2016, the Company and its subsidiaries was sold to Blackhawk Network Inc. As such, all existing schemes were allowed to vest prior to the completion of the transaction, in order that the purchaser could acquire 100% of the share capital.

In addition to the existing schemes, during the year ended 31 December 2016 100,000 options were granted to members of the senior management team. The performance condition was the completion of the sale.

In previous years fair value was measured using the Black-Scholes model. The fair value of the options granted in 2016 and the revaluation of the pre-existing options was determined with respect to the actual purchase consideration, which was known at the time of grant.

The expense relating to these share options was borne by The Grass Roots Group Holdings Limited, so the expense recognised in The Grass Roots Group UK Limited was £nil (2015: nil).

The following tables illustrate the number and weighted average exercise prices (WAEP) of, and movement in, share options during the period

	Weighted average exercise price (pence) 2016	Number 2016	<i>Weighted average exercise price (pence) 2015</i>	<i>Number 2015</i>
Outstanding at 1 January	36	375,000	36	375,000
Granted during the year	-	-	-	-
Forfeited during the year	36	(75,000)	-	-
Exercised during the year	36	(300,000)	-	-
Expired during the year	-	-	-	-
Outstanding at 31 December	-	-	36	375,000

THE GRASS ROOTS GROUP UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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	Weighted average exercise price (pence) 2016	Number 2016
2016 Options		
Outstanding at 1 January	-	-
Granted during the year	163	100,000
Forfeited during the year	-	-
Exercised during the year	163	(100,000)
Expired during the year	-	-
	<hr/>	<hr/>
Outstanding at 31 December	-	-
	<hr/>	<hr/>
24. Share capital		
	2016	2015
	£000	£000
Shares classified as equity		
Authorised, allotted, called up and fully paid		
50,000 Ordinary shares shares of £1 each	50	50
	<hr/>	<hr/>

25. Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £576,142 (2015 - £586,833). There were no contributions payable to the fund at the reporting date

26. Controlling party

The company has elected not to produce consolidated accounts as it is part of a wider group. The parent company, The Grass Roots Group Holdings Limited was acquired by Blackhawk Network Inc on 6th October 2016. The ultimate parent undertaking and controlling party is Blackhawk Network Inc, a company registered in the USA. The Group accounts for Blackhawk Network Inc can be obtained from 6220 Stoneridge Mall Rd, Pleasanton, CA 94588, USA.

THE GRASS ROOTS GROUP UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**
