

Company Registration No. 06373864

Sipsmith Limited

Annual Report and Financial Statements

For the year ended 31 December 2019



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Sipsmith Limited

Annual report and financial statements for the year ended 31 December 2019

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Sipsmith Limited

Officers and Professional Advisers For the Year Ended 31 December 2019

Directors:

F L Bazini
S T J Galsworthy
I Grebenkin
F Hall
D Hester
L F Marran

Registered office:

One Bartholomew Close
Barts Square
London
EC1A 7BL

Independent Auditor:

Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB
United Kingdom

Bankers:

HSBC
62-76 Park Street
London
SE1 9DZ

Clydesdale Bank plc
30 St Vincent Place
Glasgow
G1 2HL

Sipsmith Limited

Strategic report For the Year Ended 31 December 2019

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

Principal activity and business review

The principal activity of the company is the distilling of spirits.

Business review and future developments

Revenue for the year was £22,359k (2018: £22,774k) and the loss before tax was £7,868k (2018: £4,703k). The company has net current liabilities of £11,388k (2018: £3,258k) and net liabilities of £9,901k (2018: £1,963k). The loss for the year was driven by increased management charges resultant from the leveraging of the company's position as a wholly owned subsidiary of Beam Suntory Group. This has resulted in an increase in loans and other amounts owed to group undertakings from £12,194k in 2018 to £21,871k.

The directors are satisfied with the company's sales performance in the trading year and remain optimistic about the future performance of the company.

In future years, the priority of the company is to grow revenues both in the UK and globally. The company will continue to actively invest in marketing activities and tangible assets to support continued growth of the business.

Key performance indicators

The key financial performance indicators that the directors utilise are the analysis of turnover and gross margin. Turnover has decreased by 2% compared to the prior year due to lower shipments to related-party depots in anticipation of Brexit. The gross profit margin was 34.3%, compared to 45.0% in the prior year, which is driven by higher stockholdings year over year and increased fixed overheads resulting from continued investment in production operations and environmental health and safety expenditures.

Principal risks and uncertainties

The principal risks and uncertainties faced by the company, along with associated explanations, are described below:

The company operates in highly competitive consumer categories

The company competes for customers based on product quality, cost, brand strength, service and cost. The company's success depends on continuously improving its offering and appealing to the changing needs and preferences of its customers.

Inflationary pressures on commodities, energy, freight and packaging materials prices

The company purchases commodities to support the production of gin and incurs transportation costs in the movement of spirit and case finished goods. Increase in the prices of these inputs could increase the cost of manufacturing the company's products.

Increased excise taxes on distilled spirits

Distilled spirits are subject to excise tax in many countries where the company operates. The effect of any future excise tax increases in any jurisdiction cannot be determined, but increased excise taxes could have an adverse effect on business by reducing demand.

UK exit from the European Union

The directors continue to monitor risks to the company associated with Brexit but do not expect this to have a material adverse impact on the business in the long-term.

Coronavirus pandemic

The Coronavirus pandemic has had a significant impact on the hospitality industry due to government mandated pub and restaurant closures in the UK and abroad. This has had a significant adverse impact on sales to these channels in the first half of 2020 and there continues to be a downside risk due to lower activity in the hospitality industry.

Sipsmith Limited

Strategic report (continued) For the Year Ended 31 December 2019

Coronavirus pandemic (continued)

In contrast to the lower activity in the on-trade channels, the off-trade sales channel has been resilient with consumers shifting to drinking spirits at home. The directors believe the on-trade channels will start to rebound as and when restrictions ease and that the off-trade channel will remain robust.

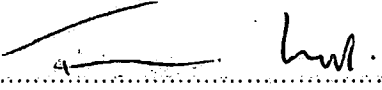
The company is well placed to continue to produce spirit to fulfil orders while maintaining social distancing in the distillery.

Financial risk management objectives and policies

The company's operations expose it to a variety of financial risks that include the effects of changes in credit risk and liquidity risk. Financial risk activities were performed by fellow subsidiaries within the Beam Suntory Group.

As a manufacturing company, the company purchases large number of commodities which exposes it to commodity price risk. In order to mitigate this risk, the company strives to have commodity prices set by contract to shield it from fluctuations in commodity prices.

Approved by the Board of Directors and signed on behalf of the Board.


.....
F Hall – Director

Date: 15/12/20

One Bartholomew Close
Barts Square
London
EC1A 7BL

Sipsmith Limited

Directors' report For the Year Ended 31 December 2019

The directors present their annual report on the affairs of the company, together with the audited financial statements for the year ended 31 December 2019.

Results

The results for the financial year are shown on page 10.

A review of the financial performance of the business, future developments, financial risk management and principal risks and uncertainties are located in the strategic report on page 2.

No dividends were paid during the current or prior year and no dividends have been proposed after the year end.

Directors of the company

The directors who served the company during the year and to the date of this report were as follows:

F L Bazini (appointed 2 April 2020) S T J Galsworthy

I Grebenkin (appointed 2 April 2020)

P W D Greenow (resigned 2 April 2020)

F Hall

D Hester

L F Marran

Going concern

The company has net current liabilities of £11,388k (2018: £3,258k) and net liabilities of £9,901k (2018: £1,963k). These liability positions are driven by £21,871k in loans from a related party and payables to group undertakings (2018: £12,194k). The company has a positive cash balance of £1,472k (2018: £1,176k). Beam Suntory Inc, the group parent, has provided a letter of financial support to the company. The Directors have reviewed the company's strategic forecast for the 12-month period from the date of approval of these financial statements. The company is expected to continue to have positive cash balances. Furthermore, the group intends to inject cash into the company as consideration for the surrender of historic loss relief to fellow group undertakings. The letter of support together with the forecasts indicate, to the Directors' satisfaction, that the company has resources more than sufficient to continue in operational existence for the foreseeable future and therefore it is appropriate to adopt the going concern basis in preparing the financial statements.

Directors' Indemnities

The company has made qualifying third-party indemnity provision for the benefit of its directors which remain in force at the date of this report.

Subsequent events

Subsequent to the balance sheet date, the global Coronavirus pandemic has negatively impacted many industries. The directors have determined that any significant impact to the company is limited and thus this is considered a non-adjusting event. Consequently, the financial statements have not been adjusted as a result of the Coronavirus pandemic.

Auditor

Each of the persons who are directors at the date of approval of this report confirms that:

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

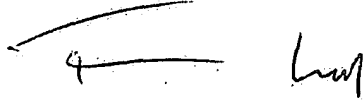
This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be reappointed as auditor in the absence of an Annual General Meeting.

Sipsmith Limited

**Directors' report (continued)
For the Year Ended 31 December 2019**

Approved by the Board of Directors and signed on behalf of the Board.



.....
F Hall – Director

Date: 15/12/20.....

One Bartholomew Close
Barrs Square
London
EC1A 7BL

Sipsmith Limited

Directors' Responsibilities Statement For the Year Ended 31 December 2019

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 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; and
- 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.

Sipsmith Limited

Independent Auditor's Report to the Members of Sipsmith Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sipsmith Limited ('the company')

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 (FRS 101) "Reduced Disclosure Framework applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- profit and loss account;
- balance sheet;
- statement of changes in equity; and
- related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

Other information

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

Sipsmith Limited

Independent Auditor's Report to the Members of Sipsmith Limited (continued)

Other information (continued)

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the group's and the 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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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 the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Sipsmith Limited

Independent Auditor's Report to the Members of Sipsmith Limited (continued)

Matters on which we are required to report by exception

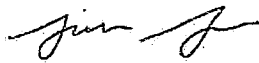
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

We have nothing to report in respect of these matters.

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.



James Boyle CA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom

Date: 15 December 2020

Sipsmith Limited

Profit and loss account For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Turnover	4	22,359	22,774
Cost of sales		(14,690)	(12,519)
Gross profit		<u>7,669</u>	<u>10,255</u>
Administrative expenses		(15,227)	(14,884)
Operating loss		<u>(7,558)</u>	<u>(4,629)</u>
Interest payable and similar expenses	9	(310)	(74)
Loss before taxation	5	<u>(7,868)</u>	<u>(4,703)</u>
Tax on loss	10	18	15
Loss for the financial year attributable to the owners of the Company		<u><u>(7,850)</u></u>	<u><u>(4,688)</u></u>

All amounts are derived from continuing operations.

No separate statement of comprehensive income has been presented because the company has no other comprehensive income other than the loss for the financial year.

Sipsmith Limited

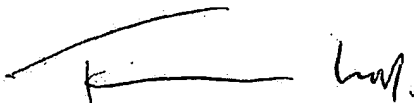
Balance sheet As at 31 December 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Intangible assets	11	-	12
Tangible assets	12	1,776	1,357
		<u>1,776</u>	<u>1,369</u>
Current assets			
Stocks	13	6,095	2,877
Debtors	14	9,911	9,561
Cash at bank and in hand		1,472	1,176
		<u>17,478</u>	<u>13,614</u>
Creditors: Amounts falling due within one year	15	(28,866)	(16,872)
Net current liabilities		<u>(11,388)</u>	<u>(3,258)</u>
Total assets less current liabilities		<u>(9,612)</u>	<u>(1,889)</u>
Creditors: amounts falling due over one year	16	(251)	-
Provisions for liabilities			
Deferred taxation	17	(38)	(74)
Net liabilities		<u>(9,901)</u>	<u>(1,963)</u>
Capital and reserves			
Called-up share capital	19	6	6
Share premium	19	776	776
Capital contribution reserve	19	99	99
Profit and loss account		(10,782)	(2,844)
Shareholders' funds		<u>(9,901)</u>	<u>(1,963)</u>

The notes on pages 13 to 29 form part of these financial statements.

The financial statements of Sipsmith Limited (registered number 06373864) were approved by the board of directors and authorised for issue on 15/12/2020

They were signed on its behalf by:



F Hall - Director

Sipsmith Limited

Statement of changes in equity For the year ended 31 December 2019

	Called up share capital £'000	Share capital £'000	Profit and loss account £'000	Capital contribution reserve £'000	Total £'000
Balance as at 1 Jan 2018	6	776	1,844	99	2,275
Loss and total comprehensive loss for the financial year	-	-	(4,688)	-	(4,688)
Balance as at 31 December 2018	6	776	(2,844)	99	(1,963)
Adjustment to retained earnings upon adoption of IFRS 16 – Note 2	-	-	(106)	-	(106)
Deferred tax impact of adoption of IFRS 16 – Note 17	-	-	18	-	18
Profit and total comprehensive income for the financial year	-	-	(7,850)	-	(7,850)
Balance as at 31 December 2019	6	776	(10,782)	99	(9,901)

Sipsmith Limited

Notes to the financial statements For the year ended 31 December 2019

1. General information

Sipsmith Limited is a private company limited by shares incorporated in the United Kingdom under the Companies' Act 2006 and is registered in England and Wales. The address of the registered office is given on page 1.

The nature of the company's operations and its principal activities are set out in the strategic report on page 2.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

2. Significant accounting policies

Basis of accounting

The company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, and presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective and related party transactions.

Where relevant, equivalent disclosures have been given in the group financial statements of Suntory Holdings Limited. The group financial statements of Suntory Holdings Limited are available to the public and can be obtained as set out in note 21.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic report on page 2.

Adoption of new and revised Standards - Amendments to IFRS's that are mandatorily effective for the current year

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective in the current year including:

- IFRIC 23 Uncertainty over Income Tax Treatments;
- IFRS 16 Leases; and
- Annual improvements to IFRS Standards 2015-2017 cycle.

IFRIC 23 – Uncertainty over Income Tax Treatments

The Company has adopted IFRIC 23 for the first time in the current year which had no material impact on the amounts reported, and disclosures included, in the financial statements. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments.

Sipsmith Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

2. Significant accounting policies (continued)

Adoption of new and revised Standards - Amendments to IFRS's that are mandatorily effective for the current year (continued)

The Interpretation requires the Company to:

- Determine whether uncertain tax positions are assessed separately or as a Company; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the Company should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings; and
 - If no, the Company should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

The transition to IFRIC 23 has not had a material impact on the financial statements.

IFRS 16 Leases

Refer to "Leases" in the significant accounting policies for disclosure of the impact of IFRS 16.

Going concern

The company has net current liabilities of £11,388k (2018: £3,258k) and net liabilities of £9,901k (2018: £1,963k). These liability positions are driven by £21,871k in loans from related party and payables to group undertakings (2018: £12,194). The company has a positive cash balance of £1,472k (2018: £1,176k). Beam Suntory Inc, the group parent, has provided a letter of financial support to the company. The Directors have reviewed the company's strategic forecast for the 12-month period from the date of approval of these financial statements. The company is expected to continue to have positive cash balances. Furthermore, the group intends to inject cash into the company as consideration for the surrender of historic loss relief to fellow group undertakings. The letter of support together with the forecasts indicate, to the Directors' satisfaction, that the company has resources more than sufficient to continue in operational existence for the foreseeable future and therefore it is appropriate to adopt the going concern basis in preparing the financial statements.

Revenue recognition

The company recognises revenue for the sale of goods. Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The company recognises revenue when it transfers control of a product to a customer, generally being when the goods have shipped to the customer. A receivable is recognised by the company when the goods have shipped as this represents the point in time at which the right to consideration becomes unconditional. It is considered highly probable that a significant reversal in revenue recognised will not occur. The transaction price is stated net of sales-related taxes, trade discounts and marketing related costs which are not capable of being separated from the sales transactions.

Sipsmith Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

2. Significant accounting policies (continued)

Leases

In the current year, the company, has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requires the recognition of a right-of-use asset and lease liability at lease commencement date.

The date of initial application of IFRS 16 for the company is 1 January 2019.

The company has applied IFRS 16 using the modified retrospective approach.

(a) Impact on the new definition of a lease

The company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the company has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly changed the scope of contracts that meet the definition of a lease for the company.

(b) Impact on Lessee Accounting

(i) *Former operating leases*

IFRS 16 changes how the company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

Applying IFRS 16, for all leases (except as noted below), the company:

(a) recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);

(b) recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

The company had no short-term leases (lease term of 12 months or less) nor leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones).

The company has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

IFRS 16 changes how the company accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. Applying IFRS 16 for all leases, the entity:

- a) Recognises right-of-use assets and lease liabilities on the balance sheet, initially measured at present value of future lease payments;

Sipsmith Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

2. Significant accounting policies (continued)

Leases (continued)

- b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the profit and loss account; and
- c) Separates the total amount of cash paid into a principal portion and interest in the profit or loss account.

(c) Financial impact of initial application of IFRS 16

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 is 2%.

The following table shows the operating lease commitments disclosed applying IAS 17 at 31 December 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

	£'000
Operating lease commitments at 31 December 2018	459
Effect of discounting above amounts	(20)
	<hr/>
Lease liabilities recognised at 1 January 2019	439

The company has recognised £333k of right-of-use assets and £439k of lease liabilities upon transition to IFRS 16. The difference of £106k is recognised in the profit and loss reserve.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation. Amortisation is recognised on a straight-line basis over their estimated useful lives of 3 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Tangible fixed assets

Tangible fixed assets are recognised at cost and subsequently stated at cost less depreciation. Depreciation on other tangible fixed assets is provided at rates calculated to write off the cost of those assets, less their estimated residual value, over their expected useful lives on the following bases:

Right-of-use assets	Straight line over the lease term
Short leasehold improvements	10 years straight line
Plant and machinery	5-25 years straight line
Fixtures, fittings and equipment	3-5 years straight line
Motor vehicles	5 years straight line

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

A tangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Sipsmith Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

2. Significant accounting policies (continued)

Impairment of tangible assets

At each balance sheet date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units, for which a reasonable and consistent allocation basis can be identified.

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

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

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

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost includes direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

Stocks held for distribution at no or nominal consideration are measured at cost, adjusted where applicable for any loss of service potential.

Financial instruments

Financial assets and financial liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are measured initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Financial assets held by the Company are classified as 'loans and trade receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of the initial recognition. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Sipsmith Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

2. Significant accounting policies (continued)

Financial instruments (continued)

Recognition and measurement

Amortised cost and effective interest method

the effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the company recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Impairment of financial assets

The company recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost, trade debtors and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The company always recognises lifetime ECL for trade debtors and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Sipsmith Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

2. Significant accounting policies (continued)

Financial instruments (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the company's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

1. the financial instrument has a low risk of default;
2. the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
3. adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

The company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Sipsmith Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

2. Significant accounting policies (continued)

Financial instruments (continued)

(ii) Definition of default

The company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the company, in full (without taking into account any collateral held by the company).

Irrespective of the above analysis, the company considers that default has occurred when a financial asset is more than 90 days past due unless the company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

1. significant financial difficulty of the issuer or the borrower;
2. a breach of contract, such as a default or past due event (see (ii) above);
3. the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
4. it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
5. the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade debtors, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, the loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the company in accordance with the contract and all the cash flows that the company expects to receive, discounted at the original effective interest rate.

If the company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which a simplified approach was used.

Sipsmith Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

2. Significant accounting policies (continued)

Financial instruments (continued)

The company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account and does not reduce the carrying amount of the financial asset in the balance sheet.

Derecognition of financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Sipsmith Limited

Notes to the financial statements (continued) **For the year ended 31 December 2019**

2. Significant accounting policies (continued)

Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date or at the agreed contractual rate.

Transactions in currencies other than the company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Pensions

Defined contribution pension scheme

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

Differences between contributions payable in the year and contributions actually paid are recognised in accruals or prepayments in the balance sheet.

3. Critical accounting estimates and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

In the view of the directors, there are no critical accounting judgements or key sources of estimation uncertainty which affect the company's financial statements.

Sipsmith Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

4. Turnover

An analysis of the company's turnover by geographical market is set out below.

	2019 £'000	2018 £'000
UK	18,162	18,374
Europe	1,720	1,594
Rest of world	2,477	2,806
	<u>22,359</u>	<u>22,774</u>

All of the company's turnover is derived from its principal activities, being the distilling of spirits.

An analysis of the company's turnover as follows:

	2019 £'000	2018 £'000
Sales of spirits	<u>22,359</u>	<u>22,774</u>

5. Loss before taxation

Loss before tax is stated after charging/(crediting):

	2019 £'000	2018 £'000
Cost of stock recognised as an expense	6,630	5,364
Group management fees	1,756	2,066
Group advertising and promotion recharge	5,719	4,406
Depreciation of tangible fixed assets	355	203
Amortisation of intangible fixed assets	12	20
Foreign currency (gain)/loss	(199)	132
Gain on disposal of assets	(3)	(1)
	<u></u>	<u></u>

Sipsmith Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

6. Auditor's remuneration

	2019 £'000	2018 £'000
Audit of the financial statements	27	27

There were no fees payable to Deloitte LLP and their associates for non-audit services to the company (2018: £4k).

7. Staff costs

The aggregate payroll costs were as follows:

	2019 £'000	2018 £'000
Wages and salaries	3,374	2,813
Social security costs	302	337
Other pension costs	127	43
Other staff costs	101	60
	3,903	3,253

The average monthly number of staff employed by the company during the financial year amounted to 69 (2018: 56).

	2019 Number	2018 Number
Finance	6	4
Operations	63	52
	69	56

8. Directors' remuneration

The directors' remuneration, analysed under the headings required by Company law is set out below.

	2019 £'000	2018 £'000
Directors' remuneration:		
Emoluments	264	246
Company contributions to money purchase pension schemes	3	1
	267	261

	Number	Number
The number of directors who:		
Are members of a money purchase pension scheme	1	1

Sipsmith Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

8. Directors' remuneration (continued)

	2019 £'000	2018 £'000
Remuneration of the highest paid director:		
Emoluments	131	123
Company contributions to money purchase pension schemes	3	1
	<u>134</u>	<u>124</u>

The highest paid director did not exercise any share options in the year and had no shares receivable under long-term incentive schemes.

9. Interest payable and similar expenses

	2019 £'000	2018 £'000
Group loan interest	303	74
Lease interest expense	7	-
	<u>310</u>	<u>74</u>

10. Taxation

Analysis of (credit)/charge in the year:

	2019 £'000	2018 £'000
Current tax		
Current tax on income for the year	-	-
Adjustments in respect of previous years	-	(13)
Total current tax credit	<u>-</u>	<u>(13)</u>
Deferred tax		
Origination and reversal of temporary differences	(18)	(2)
Total deferred tax	<u>(18)</u>	<u>(2)</u>
Total tax credit	<u>(18)</u>	<u>(15)</u>

The tax on the company's loss before tax differs from the theoretical amount that would arise using the standard rate of tax in the period of 19.00% (2018: 19.00%).

Sipsmith Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

10. Taxation (continued)

The differences are reconciled below:

	2019 £'000	2018 £'000
Loss before tax	(7,868)	(4,703)
Loss multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	(1,495)	(893)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	27	25
Adjustments in respect of prior periods	(13)	(14)
Impact of change in UK corporation tax rates	(1)	(1)
Group relief adjustment	1,464	868
Total tax credit for the year	(18)	(15)

Finance Act 2016 included a reduction in the main rate of UK corporation tax from 19% to 17% from 1 April 2020. However, in the UK budget on 11 March 2020, it was announced that the cut in the tax rate to 17% will now not occur and the UK Corporation Tax Rate will instead remain at 19%. As this was not substantively enacted by the balance sheet date, deferred tax balances as at 31 December 2019 continue to be measured at 17%. The rate of change will affect the size of the Company's deferred tax assets and liabilities in the future.

11. Intangible fixed assets

	Website developments £'000	Trademark £'000	Total £'000
Cost			
At 1 January 2019	78	1	79
Disposals	(16)	-	(16)
At 31 December 2019	62	1	63
Amortisation			
At 1 January 2019	66	1	67
Amortisation for the year	12	-	12
Derecognition of fully amortised assets	(16)	-	(16)
At 31 December 2019	62	1	63
Net book value			
At 31 December 2019	-	-	-
At 31 December 2018	12	-	12

Sipsmith Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

12. Tangible fixed assets

	Right-of-use- asset (buildings) £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 January 2019	-	572	1,115	249	47	1,983
Upon adoption of IFRS 16	333	-	-	-	-	333
Additions	-	85	285	63	15	448
Disposals	-	(3)	(31)	(145)	-	(179)
At 31 December 2019	333	654	1,369	167	62	2,585
Depreciation						
At 1 January 2019	-	169	242	209	6	425
Charge for the year	63	104	141	32	15	355
Disposals	-	(2)	(32)	(138)	-	(172)
At 31 December 2019	63	271	351	103	21	809
Net book value						
At 31 December 2019	270	383	1,017	64	41	1,776
At 31 December 2018	-	403	873	40	41	1,357

The company leases several assets, including buildings. The average lease term is 7 years. The maturity analysis of lease liabilities is presented in note 18.

13. Stocks

	2019 £'000	2018 £'000
Raw materials	1,373	1,111
Finished goods	4,722	1,766
	<u>6,095</u>	<u>2,877</u>

14. Debtors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade debtors	8,371	6,974
Amounts owed by group undertakings	746	1,199
Other debtors	586	761
Corporation tax debtor	16	163
Prepayments	192	464
	<u>9,911</u>	<u>9,561</u>

Amounts owed by group undertakings are repayable on demand and bear no interest.

Sipsmith Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

15. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	2,428	1,516
Amounts owed to group undertakings	1,631	5,728
Other taxation and social security	836	549
Lease liability: short-term (note 18)	93	-
Other creditors	50	41
Accruals and deferred income	3,588	2,572
Loan from related party	20,240	6,466
	<u>28,866</u>	<u>16,872</u>

Loans from related party are unsecured, repayable on demand and bear interest at 1.5% above LIBOR.

16. Creditors: amounts falling due over one year

	2019 £'000	2018 £'000
Lease liability: long-term (note 18)	250	-
	<u>250</u>	<u>-</u>

17. Deferred taxation

	2019 £'000	2018 £'000
At beginning of year	74	76
Credited upon transition to IFRS 16	(18)	-
Credit during the year	(18)	(2)
At end of year	<u>38</u>	<u>74</u>

The provision for deferred taxation is made up as follows:

	2019 £'000	2018 £'000
Difference between accumulated depreciation and capital allowances	38	74
	<u>38</u>	<u>74</u>

Sipsmith Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

18. Lease liabilities

The company has annual commitments in respect of leases with the following minimum lease payments. Prior year comparatives are not required under the modified retrospective approach in adopting IFRS 16 for the first time.

	2019 £'000
Amounts due for settlement within 12 months	93
Amounts due for settlement after 12 months	250
	<u>343</u>

Maturity analysis

	2019 £'000
Not later than 1 year	93
Later than 1 year and not later than 5 years	250
Later than 5 years	-
	<u>343</u>

19. Called-up share capital and reserves

		2019 £'000	2018 £'000
Allotted, issued and fully paid shares			
Number	Class		
607,098	Ordinary shares	6	6
	Nominal value: 1p each	<u>6</u>	<u>6</u>

Share premium account:

	2019 £'000	2018 £'000
Balance at 1 January	776	776
Premium arising on issue of equity shares	-	-
Balance at 31 December	<u>776</u>	<u>776</u>

Profit and loss account

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

Capital contribution reserve

The capital contribution reserve totals £99k (2018: £99k).

Sipsmith Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

20. Subsequent events

Subsequent to the balance sheet date, the global Coronavirus pandemic has negatively impacted many industries. The directors have determined that any significant impact to the company is limited and thus this is considered a non-adjusting event. Consequently, the financial statements have not been adjusted as a result of the Coronavirus pandemic. Refer to the Strategic Report for further consideration of the Coronavirus pandemic.

21. Controlling related party

In the opinion of the directors, the company's ultimate parent company and ultimate controlling party is Kotobuki Realty Co. Limited, a company incorporated in Japan. The parent undertaking of the smallest and largest group which includes the company and for which group accounts are prepared, is Suntory Holdings Limited, a company incorporated in Japan (registered office address 2-1-40 Dojimahama, Kita Ku, Osaka Shi, Osaka Prefecture 530 8203). Copies of the group financial statements of Suntory Holdings Limited are available from <https://www.suntory.com/about/financial/securities.html>. The company's immediate controlling party is Suntory UK Holdings Limited, a company incorporated in the United Kingdom.