

**Company Registration No. 06373864**

**Sipsmith Limited**

**Annual Report and Financial Statements**

**For the year ended 31 December 2020**



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# **Sipsmith Limited**

## **Annual report and financial statements for the year ended 31 December 2020**

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## **Sipsmith Limited**

### **Officers and Professional Advisers For the Year Ended 31 December 2020**

#### **Directors:**

F L Bazini  
S T J Galsworthy  
Y Grebenkin  
E Gutiérrez Rico de Villademoros  
F Hall  
D Hester  
L F Marran

#### **Registered office:**

One Bartholomew Close  
Barts Square  
London  
EC1A 7BL

#### **Statutory 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 2020**

The directors present their strategic report for the year ended 31 December 2020.

### **Principal activity and business review**

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

### **Business review and future developments**

Sipsmith Limited (the company) had revenue for the year of £21,714k (2019: £22,359k) and a loss before tax of £10,669k (2019: loss of £7,868k). The company had net current liabilities of £18,329k (2019: £11,388k) and net liabilities of £16,204k (2019: £9,901k). The company continues to incur a loss as a result of ongoing investment in the brand and on leveraging the company's position within Beam Suntory. This has resulted in an increase in loans and other amounts owed to group undertakings from £21,871k in 2019 to £32,077k in 2020. The increase in the loss in the current year is primarily a result of the changes in sales mix caused by COVID, as discussed further below.

There has been a significant change in the company's sales mix due to the Coronavirus pandemic, resulting in a reduction in revenue. Government mandated pub and restaurant closures in the UK and abroad has caused a significant adverse impact on sales in the hospitality industry (on-trade). However, UK consumer spending shifted to retail (off-trade) and this resulted in the off-trade sales compensating for the reduced UK on-trade activity.

The directors are satisfied with the company's sales performance in the trading year and believe the on-trade channels will start to rebound as and when restrictions ease, and that the off-trade channel will remain robust.

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 3% compared to the prior year, driven by reduced shipments to related-party depots. This was a compounded effect of decreased demand in international on-premise accounts, along with surplus stock existing at related-party depots, following prior stock buildups in anticipation of Brexit.

The gross profit margin was 21.9%, compared to 34.3% in the prior year. This reduction is due to the change in the company's sales mix with increased activity in the UK, specifically in off-trade channels. Off-trade sales have lower margins and all UK sales have higher costs as they are subject to local duty charges. COVID related reductions in production resulted in a lower proportion of fixed overhead costs being capitalised to inventory.

### **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.

## **Sipsmith Limited**

### **Strategic report (continued) For the Year Ended 31 December 2020**

#### **Principal risks and uncertainties (continued)**

##### *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 and there continues to be a downside risk due to lower activity in the hospitality industry. 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: 22/09/21  
.....

One Bartholomew Close  
Barts Square  
London  
EC1A 7BL

## **Sipsmith Limited**

### **Directors' report For the Year Ended 31 December 2020**

The directors present their annual report on the affairs of the company, together with the audited financial statements for the year ended 31 December 2020.

#### **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

Y Grebenkin – appointed 2 April 2020

F Hall

D Hester

L F Marran

P W D Greenow – resigned 2 April 2020

E Gutiérrez Rico de Villademoros - appointed 9 June 2021

#### **Going concern**

The company has net current liabilities of £18,329k (2019: £11,388k) and net liabilities of £16,204k (2019: £9,901k). These liability positions are driven by £32,077k in loans from related party and payables to group undertakings (2019: £21,871k). The company has a positive cash balance of £1,748k (2019: £1,472k).

Beam Suntory Inc, the intermediate group parent, has provided a letter of financial support to the company confirming they will support Sipsmith to operate as a going concern and that they have sufficient financial resources to do so. Sipsmith is satisfied that Beam Suntory Inc is capable and in right financial standing to provide this support. 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.

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, in January 2021 the group paid £2.4m, that was within debtors at 31 December 2020, as consideration for the surrender of historic loss relief to fellow group undertakings.

#### **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**

On 1 February 2021, the company purchased the land and buildings on its operating site from a third-party for cash consideration of £3.1m. At balance date the company was leasing the property and recorded a lease liability of £222k included within note 18 and right-of-use asset of £158k included within note 12.

## Sipsmith Limited

### Directors' report (continued) For the Year Ended 31 December 2020

#### Auditor

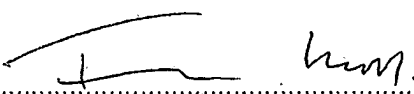
Each of the persons who are directors at the date of approval of this report confirms that:

- 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.

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



F Hall – Director

Date: 22/09/21

One Bartholomew Close  
Barts Square  
London  
EC1A 7BL

## **Sipsmith Limited**

### **Directors' Responsibilities Statement For the Year Ended 31 December 2020**

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**

In our opinion the financial statements of Sipsmith Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 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 "Reduced Disclosure Framework" and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the 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".

##### **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 Financial Reporting Council's (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**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

##### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Sipsmith Limited**

### **Independent Auditor's Report to the Members of Sipsmith Limited**

#### **Responsibilities of directors**

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### **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 FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act, and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- There is a risk that revenue is recorded in the wrong period when sales are recorded but the performance obligations such as delivery of goods has not occurred around the year-end date. We have assessed the design and implementation of controls over revenue recorded in that time period and have performed substantive audit procedures over sales around year end; and
- There is a risk that the management recharges are inaccurate. We have assessed the design and implementation of controls over the review and approval of the management recharge calculations and have performed detailed substantive testing over the amounts recorded.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

## **Sipsmith Limited**

### **Independent Auditor's Report to the Members of Sipsmith Limited**

#### **Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)**

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

#### **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 its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

We have nothing to report in 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, UK

23 September 2021

## **Sipsmith Limited**

### **Profit and loss account For the year ended 31 December 2020**

	<b>Note</b>	<b>2020 £'000</b>	<b>2019 £'000</b>
Turnover	4	21,714	22,359
Cost of sales		(16,957)	(14,690)
<b>Gross profit</b>		<u>4,757</u>	<u>7,669</u>
Administrative expenses		(15,019)	(15,227)
<b>Operating loss</b>		<u>(10,262)</u>	<u>(7,558)</u>
Interest payable and similar expenses	9	(407)	(310)
<b>Loss before taxation</b>	5	<u>(10,669)</u>	<u>(7,868)</u>
Tax on loss	10	4,366	18
<b>Loss for the financial year attributable to the owners of the Company</b>		<u>(6,303)</u>	<u>(7,850)</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

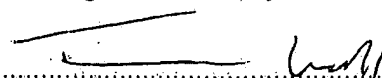
## Balance sheet As at 31 December 2020

	Note	2020 £'000	2019 £'000
<b>Fixed assets</b>			
Intangible assets	11	-	-
Tangible assets	12	1,544	1,776
		<u>1,544</u>	<u>1,776</u>
<b>Other non-current assets</b>			
Deferred taxation	17	745	-
		<u>745</u>	<u>-</u>
<b>Total non-current assets</b>		<u>2,289</u>	<u>1,776</u>
<b>Current assets</b>			
Stocks	13	4,607	6,095
Debtors	14	13,524	9,911
Cash at bank and in hand		1,748	1,472
		<u>19,879</u>	<u>17,478</u>
<b>Creditors: Amounts falling due within one year</b>	15	<u>(38,208)</u>	<u>(28,866)</u>
<b>Net current liabilities</b>		<u>(18,329)</u>	<u>(11,388)</u>
<b>Total assets less current liabilities</b>		<u>(16,040)</u>	<u>(9,612)</u>
<b>Creditors: amounts falling due over one year</b>	16	(164)	(251)
<b>Provisions for liabilities</b>			
Deferred taxation	17	-	(38)
<b>Net liabilities</b>		<u>(16,204)</u>	<u>(9,901)</u>
<b>Capital and reserves</b>			
Called-up share capital	19	6	6
Share premium	19	776	776
Capital contribution reserve	19	99	99
Profit and loss account		<u>(17,085)</u>	<u>(10,782)</u>
<b>Shareholders' deficit</b>		<u>(16,204)</u>	<u>(9,901)</u>

The notes on pages 13 to 28 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 22.09.21

They were signed on its behalf by:



F Hall - Director

# Sipsmith Limited

## Statement of changes in equity For the year ended 31 December 2020

	<b>Called-up share capital £'000</b>	<b>Share capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Capital contribution reserve £'000</b>	<b>Total £'000</b>
<b>Balance as at 1 January 2019</b>	6	776	(2,844)	99	(1,963)
Adjustment to retained earnings upon adoption of IFRS 16	-	-	(106)	-	(106)
Deferred tax impact of adoption of IFRS 16 – Note 17	-	-	(18)	-	(18)
Total comprehensive loss for the financial year	-	-	(7,850)	-	(7,850)
<b>Balance as at 31 December 2019</b>	6	776	(10,782)	99	(9,901)
Total comprehensive loss for the financial year	-	-	(6,303)	-	(6,303)
<b>Balance as at 31 December 2020</b>	6	776	(17,085)	99	(16,204)

## Sipsmith Limited

### Notes to the financial statements (continued) For the year ended 31 December 2020

#### 1. General information

Sipsmith Limited (the company) 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'.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 'Reduced Disclosure Framework':

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 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;
  - paragraphs 76 and 79(d) of IAS 40 Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 134 to 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 paragraphs 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;
- IAS 36, 'Impairment of assets' paragraphs 134 and 135;
- IFRS 15, 'Revenue from contracts with customers': second sentence of paragraph 110, and paragraphs 113(a), 114, 115, 118, 119 (a) to (c), 120 to 127 and 129; and
- IFRS 16, 'Leases': paragraph 52, the second sentence of paragraph 89 and paragraphs 90, 91 and 93. Paragraph 58, provided that the disclosure of details of indebtedness required by paragraph 61(c) of Schedule 1 of the Regulations is presented separately for lease liabilities and other liabilities in total.

Where relevant, equivalent disclosures have been given in the group financial statements of the ultimate parent company, Suntory Holdings Limited (the group). 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

## **Sipsmith Limited**

### **Notes to the financial statements (continued) For the year ended 31 December 2020**

#### **2. Significant accounting policies (continued)**

##### **Basis of accounting (continued)**

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.

##### **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. Their adoption has not had any material impact on the disclosures or amounts reported in these financial statements.

- IFRS 3 Definition of a Business;
- IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform
- IAS 1 and IAS 8 Definition of Material
- Conceptual Framework for Financial Reporting

##### **Going concern**

The company has net current liabilities of £18,329k (2019: £11,388k) and net liabilities of £16,204k (2019: £9,901k). These liability positions are driven by £32,077k in loans from related party and payables to group undertakings (2019: £21,871k). The company has a positive cash balance of £1,748k (2019: £1,472k).

Beam Suntory Inc, the intermediate group parent, has provided a letter of financial support to the company confirming they will support Sipsmith to operate as a going concern and that they have sufficient financial resources to do so. Sipsmith is satisfied that Beam Suntory Inc is capable and in right financial standing to provide this support. 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.

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, in January 2021 the group paid £2.4m, that was within debtors at 31 December 2020, as consideration for the surrender of historic loss relief to fellow group undertakings.

##### **Revenue recognition**

The company recognises revenue for the sale of goods. Revenue is measured based on the consideration to which the company 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.

##### **Leases**

In the prior year, the company applied IFRS 16 Leases (as issued by the IASB in January 2016), effective 1 January 2019.

Contracts which convey the right to control the use of an identified asset for a period of time in exchange for consideration are accounted for as leases by the company. At the commencement date, the company, as lessee, recognises a right-of-use asset and a lease liability. The lease liability is measured at the present value of the lease payments that are not paid at that date, discounted using incremental borrowing rate. The rate implicit in the lease is not used as it is not readily determinable.

## **Sipsmith Limited**

### **Notes to the financial statements (continued) For the year ended 31 December 2020**

#### **2. Significant accounting policies (continued)**

##### **Leases (continued)**

The right-of use asset comprises the amount of the initial measurement of the lease liability, adjusted for any lease payments made at or before the commencement date, less any lease incentives received, and any initial direct costs incurred by the company. Lease term is determined as the non-cancellable period of a lease adjusted for any reasonably certain extension or termination option. After commencement date, the right-of use asset is depreciated on a straight-line basis to the end of the lease term. The lease liability is accounted for by reducing the carrying amount to reflect the lease payments made and increasing the carrying amount to reflect the interest on the lease liability.

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 weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 31 December 2020 is 2% (2019: 2%).

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

##### **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	5-10 years straight line
Plant and machinery	3-25 years straight line
Fixtures, fittings and equipment	3-5 years straight line
Motor vehicles	4 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.

##### **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.

## **Sipsmith Limited**

### **Notes to the financial statements (continued) For the year ended 31 December 2020**

#### **2. Significant accounting policies (continued)**

##### **Impairment of tangible assets (continued)**

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 are presented net of provision for slow moving and obsolete stock.

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 'financial assets at amortised cost'. The classification depends on the nature and purpose of the financial assets and is determined at the time of the initial recognition. Financial assets are measured at amortised cost using the effective interest method, less any impairment.

##### **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,

## **Sipsmith Limited**

### **Notes to the financial statements (continued) For the year ended 31 December 2020**

#### **2. Significant accounting policies (continued)**

##### **Financial instruments (continued)**

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.

##### ***(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 debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations,

## Sipsmith Limited

### Notes to the financial statements (continued) For the year ended 31 December 2020

#### 2. Significant accounting policies (continued)

##### Financial instruments (continued)

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.

##### (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).

## Sipsmith Limited

### Notes to the financial statements (continued) For the year ended 31 December 2020

#### 2. Significant accounting policies (continued)

##### Financial instruments (continued)

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.

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.

## **Sipsmith Limited**

### **Notes to the financial statements (continued) For the year ended 31 December 2020**

#### **2. Significant accounting policies (continued)**

##### **Financial instruments (continued)**

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.

##### **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.

## **Sipsmith Limited**

### **Notes to the financial statements (continued) For the year ended 31 December 2020**

#### **2. Significant accounting policies (continued)**

##### **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 2020

#### 4. Turnover

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

	2020 £'000	2019 £'000
UK	20,256	18,162
Europe	541	1,720
Rest of world	917	2,477
	<u>21,714</u>	<u>22,359</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:

	2020 £'000	2019 £'000
Sales of spirits	<u>21,714</u>	<u>22,359</u>

#### 5. Loss before taxation

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

	2020 £'000	2019 £'000
Cost of stock recognised as an expense	5,566	6,630
Group management fees	2,783	1,756
Other Group recharges	3,956	5,719
Depreciation of tangible fixed assets	399	355
Amortisation of intangible fixed assets	-	12
Foreign currency (gain)/loss	394	(199)
Gain on disposal of assets	(1)	(3)
	<u></u>	<u></u>

#### 6. Auditor's remuneration

	2020 £'000	2019 £'000
Audit of the financial statements	<u>28</u>	<u>27</u>

There were no fees payable to Deloitte LLP and their associates for non-audit services to the company (2019: £nil).

## Sipsmith Limited

### Notes to the financial statements (continued) For the year ended 31 December 2020

#### 7. Staff costs

The aggregate payroll costs were as follows:

	2020 £'000	2019 £'000
Wages and salaries	3,302	3,374
Social security costs	375	302
Other pension costs	257	127
Other staff costs	80	101
	<u>4,014</u>	<u>3,903</u>

The average monthly number of staff employed by the company during the financial year amounted to 68 (2019: 69).

	2020 Number	2019 Number
Finance	7	6
Operations	61	63
	<u>68</u>	<u>69</u>

#### 8. Directors' remuneration

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

	2020 £'000	2019 £'000
<b>Directors' remuneration:</b>		
Emoluments	64	264
Company contributions to money purchase pension schemes	12	3
	<u>76</u>	<u>267</u>
	<b>Number</b>	<b>Number</b>
<b>The number of directors who:</b>		
Are members of a money purchase pension scheme	2	1

	2020 £'000	2019 £'000
<b>Remuneration of the highest paid director:</b>		
Emoluments	32	131
Company contributions to money purchase pension schemes	8	3
	<u>40</u>	<u>134</u>

FY20 covers the four-month period, January to April. From April 2020, directors' remuneration is paid by a related entity.

The highest paid director did not exercise any share options in the year and had no shares receivable under long-term incentive schemes. The directors ceased to be employed by Sipsmith Limited during the financial year.

## Sipsmith Limited

### Notes to the financial statements (continued) For the year ended 31 December 2020

#### 9. Interest payable and similar expenses

	2020 £'000	2019 £'000
Group loan interest	402	303
Lease interest expense	5	7
	<u>407</u>	<u>310</u>

#### 10. Taxation

Analysis of (credit)/charge in the year:

	2020 £'000	2019 £'000
<b>Current tax</b>		
Current tax on income for the year	(2,004)	-
Adjustments in respect of previous years	(1,579)	-
<b>Total current tax credit</b>	<u>(3,583)</u>	<u>-</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(788)	(18)
Change in tax rates	5	-
<b>Total deferred tax</b>	<u>(783)</u>	<u>(18)</u>
<b>Total tax credit</b>	<u>(4,366)</u>	<u>(18)</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% (2019: 19.00%).

The differences are reconciled below:

	2020 £'000	2019 £'000
Loss before tax	<u>(10,669)</u>	<u>(7,868)</u>
Loss multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%)	(2,027)	(1,495)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	12	27
Adjustments in respect of prior periods	(2,356)	(13)
Impact of change in UK corporation tax rates	5	(1)
Group relief adjustment	-	1,464
<b>Total tax credit for the year</b>	<u>(4,366)</u>	<u>(18)</u>

Finance Bill 2021 was published on 11 March 2021 including an increase in the main rate of UK corporation tax from 19% to 25% from 1 April 2023. As this was not substantively enacted by the balance sheet date, deferred tax balances as at 31 December 2020 continue to be measured at 19%. The overall effect of the changes announced in Finance Bill 2021, if substantively enacted at the balance sheet date, would have no significant impact on the accounts.

## Sipsmith Limited

### Notes to the financial statements (continued) For the year ended 31 December 2020

#### 11. Intangible fixed assets

	Website developments £'000	Trademark £'000	Total £'000
<b>Cost</b>			
At 1 January 2020	62	1	63
Disposals	-	-	-
At 31 December 2020	62	1	63
<b>Amortisation</b>			
At 1 January 2020	62	1	63
Amortisation for the year	-	-	-
Derecognition of fully amortised assets	-	-	-
At 31 December 2020	62	1	63
<b>Net book value</b>			
At 31 December 2020	-	-	-
At 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	Assets Under Constructi on £'000	Total £'000
<b>Cost</b>							
At 1 January 2020	333	654	1,369	167	62	-	2,585
Additions	-	5	105	45	-	13	168
Disposals	-	(20)	(23)	-	-	-	(43)
At 31 December 2020	333	639	1,451	212	62	13	2,710
<b>Depreciation</b>							
At 1 January 2020	63	271	351	103	21	-	809
Charge for the year	79	111	168	25	16	-	399
Disposals	-	(16)	(26)	-	-	-	(42)
At 31 December 2020	142	366	493	128	37	-	1,166
<b>Net book value</b>							
At 31 December 2020	191	273	958	84	25	13	1,544
At 31 December 2019	270	383	1,017	64	41	-	1,776

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.

## Sipsmith Limited

### Notes to the financial statements (continued) For the year ended 31 December 2020

#### 13. Stocks

	2020 £'000	2019 £'000
Raw materials	1,600	1,373
Finished goods	3,007	4,722
	<u>4,607</u>	<u>6,095</u>

#### 14. Debtors: amounts falling due within one year

	2020 £'000	2019 £'000
Trade debtors	8,556	8,371
Amounts owed by entities under common control	2,298	746
Other debtors	181	586
Corporation tax debtor	1,237	16
Prepayments	1,252	192
	<u>13,524</u>	<u>9,911</u>

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

Prepayments includes £325k deposit for purchase of land and buildings completed in 2021, as detailed in note 20.

#### 15. Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	2,168	2,428
Amounts owed to entities under common control	5,689	1,631
Other taxation and social security	1,214	836
Lease liability: short-term	87	93
Other creditors	22	50
Accruals and deferred income	2,640	3,588
Loan from related party	26,388	20,240
	<u>38,208</u>	<u>28,866</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

	2020 £'000	2019 £'000
Lease liability: long-term	164	251
	<u>164</u>	<u>251</u>

For lease maturity refer to note 18.

# Sipsmith Limited

## Notes to the financial statements (continued) For the year ended 31 December 2020

### 17. Deferred taxation

	2020 £'000	2019 £'000
At beginning of year	38	74
Credited upon transition to IFRS 16	-	(18)
Credit during the year	(783)	(18)
At end of year	<u>745</u>	<u>38</u>

The provision for deferred taxation is made up as follows:

	2020 £'000	2019 £'000
Difference between accumulated depreciation and capital allowances	38	38
Tax losses	(783)	-
	<u>745</u>	<u>38</u>

### 18. Lease liabilities

The company has annual commitments in respect of leases with the following minimum lease payments.

<i>Maturity analysis</i>	2020 £'000	2019 £'000
No later than 1 year	87	93
Later than 1 year and not later than 5 years	164	250
Later than 5 years	-	-
	<u>251</u>	<u>343</u>

Lease interest charge for the year is £5k (2019: £7k). Cash outflow related to lease liabilities for the year is £98k (2019: £103k).

### 19. Called-up share capital and reserves

Allotted, issued and fully paid shares		2020 £'000	2019 £'000
Number	Class		
607,098	Ordinary shares		
	Nominal value: 1p each	<u>6</u>	<u>6</u>
		<u>6</u>	<u>6</u>

## Sipsmith Limited

### Notes to the financial statements (continued) For the year ended 31 December 2020

#### 19. Called-up share capital and reserves (continued)

Share premium account:

	2020 £'000	2019 £'000
Balance at 1 January	776	776
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 (2019: £99k).

#### 20. Subsequent events

On 1 February 2021, the company purchased the land and buildings on its operating site from a third-party for cash consideration of £3.1m. At balance date the company was leasing the property and recorded a lease liability of £222k included within note 18 and right-of-use asset of £158k included within note 12.

#### 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.