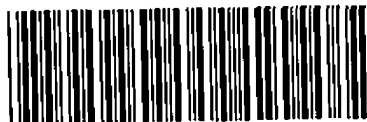


Grace Foods UK Limited
Annual report and financial statements
for the year ended 31 December 2019

Registered number 0094632

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Strategic report

The directors present their strategic report of Grace Foods UK Ltd ("the Company") for the year ended 31 December 2019.

Business review and principal activities

Grace Foods UK Limited imports, manufactures and distributes a variety of specialty food products as a brand owner or distributor to the supermarkets, catering sectors, food and drink trade in the UK and Europe.

The results for the company show an operating profit of £2,036,000 for the year (31 December 2018: £2,753,000 operating loss).

The net assets of the company as at 31 December 2019 were £5,921,000 (31 December 2018: £4,272,000).

Principal risks and uncertainties

The management of the business and the execution of the company's strategy is subject to a number of risks.

There are several contracts and key agency agreements for the supply of key products and brands in the UK to which the company is a party, and these are managed to ensure that actions can be taken to mitigate any risks that arise.

The company operates in the retail and wholesale markets where there is strong competition. The directors maintain proactive marketing policies to ensure that its products and brands receive regular support in these markets.

Several products supplied by the Company are subject to adverse climatic conditions which affect their availability, and the Company continually sources such products from alternative suppliers to eliminate the risk of disruption in supplies.

The company's holding company in the UK has appointed the GraceKennedy group internal audit team to carry out a program of audits based upon the company's assessment of its business risks and the internal controls that are currently in place.

Key Performance Indicators ("KPIs")

The directors of GK Foods (UK) Limited, the immediate parent undertaking, consider profitability, working capital and supply chain performance to be the key KPIs within the Company. Profitability and working capital performance are deemed to be satisfactory and are shown within the financial statements. Supply chain performance has also been satisfactory in the year.

On 1 January 2019 the group restructured the UK group of operating companies, aggregating all operations into Grace Foods UK Ltd. Together with a hive-up of the trading activities of subsidiary companies into Grace Foods UK Ltd, this marks a significant simplification in the corporate structure of the business and the balance sheet, as well as greater clarity of management information and reduced compliance costs.

Directors' Duties

The directors of the Company, as those of all UK companies, must act in accordance with a set of general duties. These duties are detailed in section 172 of the UK Companies Act 2006 which is summarised as follows:

'A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders as a whole and, in doing so have regard (amongst other matters) to:

Strategic report (continued)

- the likely consequences of any decisions in the long-term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between shareholders of the Company.'

As part of their induction, a Director is briefed on their duties and they can access professional advice on these, either from the Company Secretary or, if they judge it necessary, from an independent adviser. The Directors' fulfil their duties as summarised in the following paragraphs in the Directors' report on pages 4 to 5: Risk Management, Employees, Employee involvement and communication.

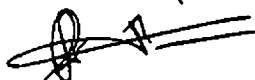
Creditor payment policy

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

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

Trade creditor days for the year ended 31 December 2019 were 56 days (31 December 2018: 54 days) based on the ratio of company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

By order of the Board



Khine Oo
Company secretary
4 March 2020

Grace House
Bessemer Road
Welwyn Garden City
Hertfordshire
England
AL7 1HW

Directors' report

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

General Information

Grace Foods UK Limited is a private limited company incorporated and domiciled in England and Wales. The registered address is Grace House, Bessemer Road, Welwyn Garden City, Hertfordshire, England AL7 1HW.

The principal activity of the company during the year was the manufacture and distribution of food and drink products with a variety of specialty products as a brand owner or distributor.

The immediate parent undertaking is GK Foods (UK) Ltd, incorporated in the UK. The ultimate parent company and controlling party is GraceKennedy Limited.

Going concern

The company meets its day-to-day working capital requirements through its cash reserves and borrowings. The company retains net current assets of £ 5,921,000 (2018: £4,272,000) at the balance sheet date. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Future outlook

The external commercial environment is expected to remain competitive for 2020. However, the directors remain confident that the company will be able to maintain its current level of performance in the future.

The company will face challenges arising from the current difficult trading conditions which are expected to continue for the foreseeable future. The directors will maintain policies to adapt to these changing conditions and to ensure the company's long term future alongside receiving the continued support from the ultimate parent company.

We continue to invest in the development of our major brands and in the development of new products for all our operations. The directors regard the investment in research and development as integral to the continuing success of the business and ensuring that we are able to continue to meet the needs of our customers. We are also continuing to invest in our understanding of our customers buying patterns.

Dividends

No dividend was paid during the financial year ended 31 December 2019 (one interim dividend amounting to £625,000 was paid on the 3 April 2018).

Group Reconstruction

On the 1 January 2019 the UK group of operating companies was restructured, aggregating all operations into Grace Foods UK Ltd. As a result of this restructuring the following trading assets and liabilities were received by Grace Foods UK Limited at book value: Chadha Oriental Foods Limited £4,499,045, Enco Products Limited £3,063,109, Funnybones Foodservices Limited £1,538,948.

The costs associated with the above restructuring were minimal.

Directors' report (continued)

Post balance sheet events

The directors do not consider there to be any important events affecting the company after the balance sheet date.

Political and charitable donations

The company made no political or charitable donations during the year (31 December 2018: £nil).

Financial instruments

The company uses forward contracts to manage the risk associated with fluctuating exchange rates on its purchases.

Directors

The directors who held office during the year and up to the date of signing these financial statements were as follows:

D Wehby
M Ranglin (Resigned 31/12/2018)
G Shirley
A Lewis-Coy
P Cross (Resigned 23/10/2019)
S Lankage
B Mitchell
V Rizzioli (Appointed 19/02/2019)
J Esau
A Rainford

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

Risk Management

The Directors are monitoring the outcome of the UK's decision to leave the European Union on 31 January 2020. As the UK Government continues its negotiations, uncertainty remains as to the extent to which our operations and financial performance will be affected in the longer term. At a group and company level, we have continued to prepare for changes in legislation, trade agreements and working practices in order to take advantage of the changing commercial landscape and to mitigate risk.

Our consumers are becoming increasingly aware of the impact of disposable packaging on the environment. As a result we are working closely with our customers and suppliers to mitigate this impact and foster better relations with our consumers.

Directors' report (continued)

Employees

The company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The company gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the company. If members of staff become disabled the company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company.

The company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the company plays a role in maintaining its' performance. The group encourages the involvement of employee's by means of a performance based incentive scheme.

Employee involvement and communication

We have engaged colleagues with great ideas and strive to involve our people with matters impacting on them. We receive feedback through employee opinion surveys, which form an important strategic tool across the company, as they provide honest feedback that can drive business improvements. We value two-way communication, having a significant number of proactive employee forums in place, to ensure that we have an ongoing dialogue to involve colleagues with matters that are important to them. This is facilitated through elected employee representatives and, directly, in team meetings and larger briefings.

Financial risk management

The company is exposed to a variety of financial risk including currency risk.

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee. The policies set by the directors are implemented by the company's finance department.

Price risk

The company is exposed to commodity price risks as a result of its operations. However, given the size of the company's operations, the costs of managing exposure to commodity price risks exceed any potential benefits. The directors will revisit the appropriateness of this policy should the company's operations change in size and nature.

Currency risk

The group within which the company operates uses forward contracts to manage the risk associated with fluctuating exchange rates on its purchases on a group basis. These forward contracts are transacted through a fellow group undertaking.

Credit risk

The company has implemented policies that require appropriate checks on potential and existing customers before sales are made. The amount of exposure to any individual customer is subject to a limit which is reassessed periodically by the directors, in conjunction with the company's credit insurers.

Directors' report (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The directors 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.

Disclosure of information to auditors

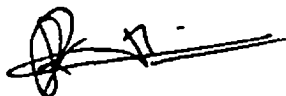
In the case of each director in office at the date the Directors' Report is approved:

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

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and are proposed for reappointment in accordance with section 485 of the Companies Act 2006.

By the order of the Board



Khine Oo
Company secretary
4 March 2020

Grace House
Bessemer Road
Welwyn Garden City
Hertfordshire
England
AL7 1HW

Independent auditors' report to the members of Grace Foods UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Grace Foods UK Limited's financial statements:

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

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the income statement, the statement of other comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.*

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Grace Foods UK Limited (continued)

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Robert Girdlestone (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
4 March 2020

Income statement for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Revenue	5	75,022	-
Cost of sales		(56,564)	-
Gross Profit		18,458	-
Other income		-	11,702
Dividend income		1,129	625
Distribution costs		(3,995)	(3,985)
Administrative expenses		(13,556)	(7,591)
Amounts written off investments		-	(3,504)
Operating profit/(loss)	6	2,036	(2,753)
Finance expenses	9	(341)	(115)
Profit/(loss) before income tax		1,695	(2,868)
Income tax expense	10	(132)	(9)
Profit/(loss) for the financial year		1,563	(2,877)

Statement of other comprehensive income

For the year ended 31 December 2019

Profit / (loss) for the financial year	1,563	(2,877)
Other comprehensive income	-	-
Total comprehensive income / (expense) for the year	1,563	(2,877)

The notes on pages 12 to 30 form part of these financial statements.
The results for the year arise solely from continuing activities.

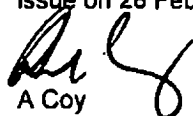
Statement of financial position

As at 31 December 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Property, plant and equipment	11	2,284	1,494
Deferred tax assets	18	-	30
Right of use assets	12	6,319	-
Investments	13	-	7,971
		8,603	9,495
Current assets			
Inventory	14	11,727	70
Trade and other receivables	15	10,553	851
Current tax asset		-	569
Cash at bank and in hand		912	227
		23,192	1,717
Total assets		31,795	11,212
Current liabilities			
Trade and other payables	16	17,153	3,940
Lease liabilities	12	1,256	-
Borrowings	17	2,023	1,500
		20,432	5,440
Non-current liabilities			
Borrowings	17	-	1,500
Lease liabilities	12	5,442	-
Total liabilities		25,874	6,940
Equity			
Retained earnings		5,921	4,272
Total equity		5,921	4,272
Total equity and liabilities		31,795	11,212

The notes on pages 12 to 30 are an integral part of these financial statements.

The financial statements on pages 9 to 30 were approved by the board of directors and authorised for issue on 28 February 2020 and were signed on its behalf.



A Coy

Director

Grace Foods UK Limited

Registered number: 0094632

Statement of changes in equity

For the year ended 31 December 2019

	Called up share capital £'000	Share Premium £'000	Other Reserves £'000	Retained earnings £'000	Total Shareholders Fund £'000
Balance as at 1 January 2018	-	-	-	7,774	7,774
(Loss) for the financial year	-	-	-	(2,877)	(2,877)
Other comprehensive income for the year	-	-	-	-	-
Revaluation of available for sale asset, net of deferred tax	-	-	-	-	-
Total comprehensive expense for the year	-	-	-	(2,877)	(2,877)
Dividends	-	-	-	(625)	(625)
Total transactions with owners, directly recognised in equity	-	-	-	(625)	(625)
Balance as at 31 December 2018	-	-	-	4,272	4,272
Effect of adoption of IFRS 16: Leases	-	-	-	86	86
Adjusted balance as at 1 January 2019	-	-	-	4,358	4,358
Profit for the financial year	-	-	-	1,563	1,563
Total comprehensive income for the year	-	-	-	5,921	5,921
Dividends	-	-	-	-	-
Balance as at 31 December 2019	-	-	-	5,921	5,921

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

1. General information

Grace Foods UK Limited imports, manufactures and distributes a variety of specialty food products as a brand owner or distributor to the supermarkets, catering sectors, food and drink trade in the UK and Europe.

The company is a private company and is incorporated and domiciled in the UK. The registered address is Grace House, Bessemer Road, Welwyn Garden City, Hertfordshire, England AL7 1HW.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of Grace Foods UK Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the recognition of certain financial assets (note 2.6.2) at fair value, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

In preparing these financial statements the company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- certain comparative information as otherwise required by EU endorsed IFRS;
- certain disclosures regarding the company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with other wholly owned members of the group headed by *GraceKennedy Limited*.

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the consolidated financial statements of *GraceKennedy Limited*. These financial statements do not include certain disclosures in respect of:

- Financial Instruments (other than certain disclosures required as a result of recording financial instruments at fair value);
- Fair value measurement (other than certain disclosures required as a result of recording financial instruments at fair value); and
- Impairment of assets.

Group reconstruction

On 1 January 2019 the Group elected to hive-up its trading businesses into Grace Foods UK Ltd. More information can be found in note 22.

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

Changes in accounting policy

New standard, interpretations and amendments effective from 1 January 2019

On the 1 January 2019 the company changed its inventory valuation method from FIFO to the Moving Average method. The directors feel this method best reflects the cost of goods sold in an environment of changing costs as inventory is intertwined and costs not easily distinguishable between consignments. The impact on prior year inventory is immaterial and no retrospective application has been made.

IFRS 16 is a new accounting standard that is effective for the year ended 31 December 2019 and has had a material impact on the company's financial statements – see note 13. There are no other amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2019 that have had a material impact on the company's financial statements.

Grace Foods UK applied IFRS 16 commencing 1 January 2019, using the modified retrospective approach. At the commencement date the company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability. The company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the end of the lease term.

At the commencement date, the company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the companies incremental borrowing rate.

In applying IFRS 16, in relation to the leases that were classified as operating leases, the company recognises depreciation and interest costs, instead of operating lease expense.

2.1.1 Going concern

The company meets its day-to-day working capital requirements through its cash reserves and borrowings. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

2.2 Consolidation

The company is a wholly owned subsidiary of GK Foods UK Limited and of its ultimate parent, GraceKennedy Limited. It is included in the consolidated financial statements of GraceKennedy Limited which are publically available. Therefore the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are separate financial statements.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling (£)', which is also the company's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation

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

at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	%
• Long leasehold properties	over the life of the lease
• Vehicles 4 years	25%
• Furniture, fittings and equipment 5-8 years	15-20%
• Plant and machinery 10 years	10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income' in the income statement.

2.4.1 Impairment of non-financial assets

The carrying amount of the company's fixed assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the assets recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and fair value less costs to sell. 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.

2.5 Inventory

Inventory is stated at the lower of cost and net realisable value. Cost is determined using the moving average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.6 Financial assets

The company classifies its financial assets in the following categories:

- Amortised cost.
- Fair value through profit or loss (FVTPL)

The classification depends on the purpose for which the financial assets were acquired i.e. the entity's business model for managing the financial assets and/or the contractual cash flow characteristics of the financial asset.

Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the

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

rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

At initial recognition, the company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

2.6.1 Financial assets at amortised cost

The company classifies its financial assets as at amortised cost only if both of the following criteria are met (and are not designated as FVTPL):

- The asset is held within a business model whose objective is to collect the contractual cash flows, and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

Subsequent to initial recognition these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other (expenses)/income together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss under 'net impairment losses on financial and contract assets'.

2.6.2 Financial assets at fair value through profit or loss

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' and are categorised as fair value through profit or loss. The assets are subsequently measured at fair value with gains or losses recognised in profit or loss and presented net within other (expenses)/income in the period they arise. Fair values are determined by reference to active market or using valuation techniques where no active market exists.

The following financial assets are classified at fair value through profit or loss (FVPL):

- Debt investments that do not qualify for measurement at either amortised cost (see note 2.7(a) above).
- Equity investments that are held for trading.

2.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities.

2.8 Impairment of financial assets

The company assesses on a forward-looking basis the expected credit loss associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables – see note 3.

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

2.9 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.10 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2.11 Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred, using the effective interest rate method.

2.12 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.13 Employee benefits

The company operates a defined contribution pension plan.

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior year.

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

For defined contribution plans, the company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.14 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

2.15 Other income

Other operating income represents amounts invoiced to group companies for distribution and administration services. This is recognised in the period in which the services are provided.

2.16 Leases

The company leases various warehouse and factory premises, motor vehicles and equipment. Rental contracts are typically made for fixed periods of 3 years to 5 years but may have extension options. One premises has a fixed period lease of 25 years. Contracts may contain both lease and non-lease components. The company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of premises for which the company is a lessee and for which it has major leases, it has elected to separate lease and non-lease components and account for these separately, with the lease component treated under IFRS 16 and the non-lease component treated as operating expense. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Amounts expected to be payable by the company under residual value guarantees;
- The exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

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

The company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the company revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the company.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Information about critical accounting estimates and judgements in the application of lease accounting is disclosed in note 3.

As explained in notes 2.1 and 21, the company has changed its accounting policy for leases where the company is the lessee. The impact of the change is explained in note 21. Leases in which a significant portion of the risks and rewards of ownership were not transferred to the company as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

2.17 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.18 Dividend distribution

Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

2.19 Financial guarantees

Financial guarantees are initially recognised at fair value and are subsequently measured at the higher of (a) the amount determined in accordance with IAS 37 and (b) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18.

2.20 Revenue recognition

Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The company recognises revenue when the amount of revenue can be reliably measured; when it is

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

probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the company's activities, as described below.

Sales of goods

The company supplies the supermarkets and food and drink trade with a variety of specialty products as a brand owner or distributor. Sales of goods are recognised when the company has delivered products to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been supplied to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the company has objective evidence that all criteria for acceptance have been satisfied. The food and drink products are often sold with volume discounts, and customers have a right to return faulty products.

Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with market practice.

3. Critical accounting estimates and judgments

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

See note 11 for the carrying amount of the property plant and equipment, and note 2.4 for the useful economic lives for each class of assets.

Inventory provisioning

The company supplies the supermarkets and food and drinks trade with a variety of specialty products as a brand owner or distributor and is subject to changing consumer demands. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required.

When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 14 for the net carrying amount of the inventory and associated provision.

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

Impairment of trade receivables

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience. The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. See note 15 for the net carrying amount of the receivables and associated impairment provision.

Lease accounting

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

- To determine the incremental borrowing rate, the company:
- Where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- Uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the company, which does not have recent third party financing; and
- Makes adjustments specific to the lease, e.g. term, currency and security.

The company used incremental borrowing rates specific to each lease and the rates range between 2%-3.5% translating to an average rate of 2.5%.

Overrides and promotional accruals

Sales overrides, discounts and advertising allowances are accrued for each relevant customer agreement or promotion and are charged to the income statement as a deduction from revenue. Accruals for each individual promotion, override or advertising allowance are based on the type and length of promotion and nature of customer agreement. At the time an accrual is made the nature and type of promotion and contractual obligations are known, however an estimate is required in respect of the sales volumes or activity and the amount of product sold on promotion.

For short-term promotions, estimates are updated on a monthly basis, using actual sales information where possible and on receipt of a customer claim which typically follows after the end of a promotion. For longer-term discounts and overrides, estimates are based on the actual and forecasted sales and are updated monthly.

4. Financial Instruments

The Company enters into certain foreign exchange forward contracts to manage its exposure to currency movements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently revalued to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss.

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

5. Revenue

Analysis of revenue by geographical markets	2019 £'000	2018 £'000
UK	64,373	-
Rest of Europe	10,024	-
Rest of the World	625	-
	<u>75,022</u>	<u>-</u>

Analysis of revenue by category	2019 £'000	2018 £'000
Sales of goods	<u>75,022</u>	<u>-</u>

6. Operating profit

Operating profit is stated after charging	2019 £'000	2018 £'000
Wages and salaries	6,112	3,489
Social security costs	663	372
Other pension costs	227	183
Staff cost	<u>7,002</u>	<u>4,044</u>
Loss on disposal of property, plant and equipment	17	-
Reversal of impairment of trade receivables	(16)	-
Reversal of impairment of inventory (included in 'cost of sales')	(239)	-
Auditors' remuneration - audit	106	127
Auditors' remuneration - tax services	41	46
Auditors' remuneration - other services	56	-
Depreciation of owned tangible fixed assets	504	279
Depreciation of Right of Use Assets	<u>1,367</u>	<u>-</u>

7. Directors' emoluments

	2019 £'000	2018 £'000
Aggregate emoluments	602	555
Company contributions to money purchase pension schemes	<u>44</u>	<u>56</u>
	<u>646</u>	<u>611</u>

This remuneration includes the remuneration and termination settlement of £106,000 to Mr P Cross CEO, whose employment was terminated on the 23 October 2019.

Retirement benefits accruing to the following number of directors under:

	2019	2018
Money purchase schemes	<u>3</u>	<u>4</u>

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

	2019 £'000	2018 £'000
Highest paid director		
Aggregate emoluments	292	185
Company contributions to money purchase pension schemes	17	30
	<u>309</u>	<u>215</u>

The company operates a money purchase pension scheme for the benefit of employees and directors. The assets of the scheme are administered by an independent pension provider. During the year the company paid contributions to the scheme for directors as scheduled above.

8. Employees and Directors

For the year ended 31 December 2019 and the prior year, all staff were employed by Grace Foods UK Limited, and received salary of £6,112,000 (2018: £3,489,000).

The monthly average number of person during the year, analysed by category, was as follows:

	2019 No.	2018 No.
By activity		
Sales and administration	103	42
Distribution	85	61
	<u>188</u>	<u>103</u>

9. Finance expenses

	2019 £'000	2018 £'000
Bank interest payable	124	115
Loan interest	32	-
IFRS16 lease interest payable	185	-
	<u>341</u>	<u>115</u>

10. Tax on profit

Tax charge included in the income statement	2019 £'000	2018 £'000
Current tax:		
– UK Corporation tax on profits for the year	111	(28)
– Adjustment in respect of prior periods	(2)	(5)
Total current tax	<u>109</u>	<u>(33)</u>

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

Deferred tax:	2019	2018
	£'000	£'000
Current year	7	47
Adjustments in respect of previous years	17	0
Effect of changes in tax rates	(1)	(5)
Total deferred tax	<u>23</u>	<u>42</u>
 Tax on profit	 <u>132</u>	 <u>9</u>

10. Tax on profit (continued)

	2019	2018
	£'000	£'000
Profit / (loss) before taxation	<u>1,695</u>	<u>(2,868)</u>
Tax on profit / (loss) at standard UK tax rate of 19.00% (2018: 19.00%)	322	(545)
 <i>Effects of:</i>		
– Dividend not subject to tax	(215)	(119)
– Remeasurement of deferred tax – change in UK tax rate	-	(5)
– Adjustments in respect of prior years	15	(5)
– Transfer pricing adjustment	-	(3)
– Tax rate changes	(1)	-
– Expenses not deductible for tax purposes – impairment	-	666
– Expenses not deductible for tax purposes – other	11	20
Income tax expense	<u>132</u>	<u>9</u>

The rate of corporation tax remains at 19%, the same as the prior year.

Further changes to the UK corporation tax were enacted as part of the Finance Act 2016 which received Royal Assent on 15 September 2016, which include a reduction in the main rate to 17% from 1 April 2020.

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

11. Property, plant and equipment

	Premises Leasehold Improvements £'000's	Plant, Machinery & Equipment £'000's	Motor Vehicles £'000's	Furniture & Fixtures £'000's	Total £'000's
Cost					
At 1 January 2018	1,690	1,570	-	757	4,017
Additions	17	245	-	5	267
At 31 December 2018	1,707	1,815	-	762	4,284
Additions	46	106	-	-	152
Disposals	(16)	(14)	-	(22)	(52)
Hive up transfers	62	3,025	14	32	3,133
At 31 December 2019	1,799	4,932	14	772	7,517
Accumulated Depreciation					
At 1 January 2018	(997)	(931)	-	(583)	(2,511)
Depreciation Charge	(68)	(169)	-	(42)	(279)
At 31 December 2018	(1,065)	(1,100)	-	(625)	(2,790)
Depreciation Charge	(73)	(397)	-	(34)	(504)
Disposals	9	6	-	19	34
Hive up transfers	(60)	(1,867)	(14)	(32)	(1,973)
At 31 December 2019	(1,189)	(3,358)	(14)	(672)	(5,233)
Net Book Value					
At 31 December 2018	642	715	-	137	1,494
At 31 December 2019	610	1,574	-	100	2,284

12. Leases

The company has lease contracts for various warehouse and factory premises, motor vehicles and equipment used in the operations. The amounts recognised in the financial statements in relation to the leases are as follows:

i. Amounts recognised in the statement of financial position	31 December 2019 £'000	1 January 2019 £'000
Right of Use Assets		
Leasehold Premises	5,935	7,016
Other	384	668
	6,319	7,684
Lease Liabilities		
Current	1,256	1,284
Non-Current	5,442	6,698
	6,698	7,982

Additions to the right-of-use assets during the 2019 financial year were £51,818.

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

ii. Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	Note	2019 £'000's	2018 £'000's
Depreciation charge of right-of-use assets			
Leasehold Premises		1,032	-
Motor Vehicles		273	-
Equipment		62	-
		<u>1,367</u>	<u>-</u>
Interest expense (included in finance cost)	9	185	-
Expense relating to short-term leases (included in Administrative expenses)		92	-
Future minimum lease payments as at 31 December 2019 are as follows:			
		31 December 2019 £'000	1 January 2019 £'000
Not later than one year		1,428	1,521
Later than one year and not later than five years		4,767	5,008
Later than five years		997	2,142
Total gross payments		<u>7,192</u>	<u>8,671</u>
Impact of finance expenses		(494)	(689)
Carrying amount of liability		<u>6,698</u>	<u>7,982</u>

The total cash outflow for leases in 2019 was £1,613,000 (2018: £1,359,000).

13. Investments

	2019 £'000	2018 £'000
Shares in group undertakings		
At 1 January	7,971	11,475
Additions	-	-
Write down of investment	-	(3,504)
Repayment of capital	(7,971)	-
At 31 December	<u>-</u>	<u>7,971</u>

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

Principal subsidiary undertakings	% ordinary shares held	Nature of business	Country of incorporation
Enco Products Limited	100%	Distributor of speciality food	England and Wales
Chadha Oriental Foods Limited	100%	Distributor of oriental food	England and Wales
Funnybones Foodservice Limited	100%	Distributor of American, Cajun and Tex-Mex dishes	England and Wales
GraceKennedy Ghana Limited	100%	Distributor of speciality food	Ghana

As a result of the hive up, the capital invested in Chadha Oriental Foods, Enco Products and Funnybones Foodservice was repaid and the investments written down to a nominal value of £1 each.

The registered office of Enco Products Limited, Chadha Oriental Foods Limited and Funnybones Foodservice Limited is Grace House, Bessemer Road, Welwyn Garden City, Hertfordshire England AL7 1 HW.

The registered office of GraceKennedy Ghana Limited is A-Life Warehouse, Akasanoma Road, Tema Industrial Area, Tema Ghana.

14. Inventory

	2019 £'000	2018 £'000
Raw materials and consumables	955	70
Finished goods and goods for resale	10,772	-
	<u>11,727</u>	<u>70</u>

There is no significant difference between the replacement cost of raw materials and finished goods and goods for resale and their carrying amounts.

Inventories are stated after provisions for impairment of £151,000 (2018: nil).

The cost of inventories are recognised as an expense and included in 'Cost of sales' and amounted to £56,564,000 (2018: nil).

15. Trade and other receivables

	2019 £'000	2018 £'000
Trade debtors	9,657	-
Prepayments and accrued income	678	698
Other debtors	218	153
	<u>10,553</u>	<u>851</u>

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

16. Trade and other payables

	2019	2018
	£'000	£'000
Amounts owed to group undertakings	3,127	841
Trade creditors	10,963	1,176
Taxation and social security	148	170
Accruals	2,742	1,461
Other creditors	133	49
Deferred Tax (Note 18)	40	-
Bank overdraft	-	243
	17,153	3,940

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

17. Loans and other borrowings

	2019	2018
	£'000	£'000
Loan falling due within one year	1,500	1,500
Loan falling due within one year (DIT)	523	-
Loan falling due after more than one year	-	1,500
	2,023	3,000

The Company has secured bank loans with a carrying amount of £1,500,000 at 31 December 2019. According to the terms of the agreement, these loans are repayable in quarterly tranches of £375,000 over 3 years and started on 2nd February 2018. Interest on £2,000,000 is calculated at Bank of England base rate plus 1.75% and £1,000,000 is calculated at Bank of England base rate plus 0.75%. However, the loan contains a debt covenant stating that at the end of each quarter the Group's Cash Flow cover to Bank Debt exceeds 110%, and Net Borrowing is less than 275% of EBITDA after Dividends. This reduces to less than 250% of EBITDA after Dividends from 30 September 2018.

The company, together with the parent undertaking and fellow subsidiary undertakings has guaranteed the borrowings of the parent undertaking and other fellow subsidiary undertakings. The guarantee is secured by a fixed and floating charge over the assets of the company. At 31 December 2019, the total guarantees outstanding amounted to £1,500,000 (31 December 2018: £3,000,000). The amount of any liability to be recognised under the company's accounting policy is immaterial.

The company enters into short-term loan arrangements for imported goods (DITs) which carry and interest rate of the currency base rate plus 1.9%, and are repayable within 45 days.

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

18. Deferred tax

	Deferred tax asset £'000
At January 2018	(72)
Charge for the year	42
At 31 December 2018	(30)
At 1 January 2019	(30)
Deferred tax charge to I/S for the period	6
Movement arising from transfer of trade	47
Adjustment in respect of prior years	17
At 31 December 2019	40

Deferred tax

	2019 £'000	2018 £'000
Deferred tax liabilities / (assets) due after more than 12 months	40	(30)
	40	(30)

19. Post-employment benefits Defined contribution scheme

The company provides a defined contribution scheme for its employees.

The amount recognised as an expense for the defined contribution scheme was:

	2019 £'000	2018 £'000
Current period contributions	229	183
	229	183

Contributions amounting to £37,380 (31 December 2018: £33,779) were payable to the scheme at the end of the financial year and are included in creditors.

20. Called up share capital Ordinary shares of £0.25 each

	2019 No.	2018 £
Allotted and fully paid		
At 1 January	4	4
At 31 December	4	4

All shares rank pari passu in all respects.

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

21. Effect of adoption of IFRS 16 – Leases

As indicated in notes 2.1 and 12, the company has adopted IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 2.16.

On adoption of IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.5%.

i. Practical expedients applied

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

ii. Measurement of lease liabilities

	£'000
Company Operating lease commitments disclosed as at 31 December 2018	7,538
Operating lease commitments as at the 31 December 2018 adopted in the hive up	1,223
Combined Operating lease commitments as at 31 December 2018	<u>8,761</u>
Discounted using the lessee's incremental borrowing rate of 2.5% at the date of initial application	8,072
(Less): short-term leases not recognised as a liability	<u>(90)</u>
Lease liability recognised as at 1 January 2019	<u>7,982</u>
Of which are:	
Current lease liabilities	1,284
Non-current lease liabilities	<u>6,698</u>
	<u>7,982</u>

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

22. Acquisitions

On the 1 January 2019 the company acquired the trade, assets and liabilities of Chadha Oriental Foods Ltd for the book value amount of £4,499,045.

	£'000
Inventory	3,170
Trade and other receivables	2,486
Cash and cash equivalents	(267)
Trade and other payables	(890)
	<u>4,499</u>

On the 1 January 2019 the company acquired the trade, assets and liabilities of Enco Products Ltd for the book value amount of £3,063,109.

	£'000
Tangible non-current assets	1,164
Inventory	6,369
Trade and other receivables	7,497
Cash and cash equivalents	1,103
Trade and other payables	(13,070)
	<u>3,063</u>

On the 1 January 2019 the company acquired the trade, assets and liabilities of Funnybones Foodservices Limited for book value the amount of £1,538,948.

	£'000
Inventory	1,433
Trade and other receivables	1,542
Cash and cash equivalents	283
Trade and other payables	(1,719)
	<u>1,539</u>

23. Controlling parties

The immediate parent undertaking is GK Foods (UK) Limited, incorporated in the UK.

The ultimate parent company and controlling party is GraceKennedy Limited.

The smallest and largest group in which the results of the company are consolidated is that headed by GraceKennedy Limited, incorporated in Jamaica. The consolidated financial statements of this company are available to the public and may be obtained from Chief Corporate Secretary, GraceKennedy Limited, 73 Harbour Street, Kingston, Jamaica