

Grace Foods UK Limited

Annual report and financial statements
for the year ended 31 December 2021

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 2021.

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 £3,219,000 for the year (31 December 2020: £2,435,000 operating profit).

The net assets of the company as at 31 December 2021 were £7,724,000 (31 December 2020: £6,904,000).

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.

The company is also exposed to an elevated level of supply chain risk due in part to the Covid-19 pandemic and Brexit. The company actively monitors the dynamic economic environment and mitigates this risk by holding buffer stock, sourcing products from alternative suppliers and optimising its own manufacturing capabilities to allow for efficient insourcing of products.

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.

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 2021 were 36 days (31 December 2020: 63 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


Kerry-Ann Lincoln
Company Secretary
3 March 2022

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 2021.

General Information

Grace Foods UK Limited is a private limited company incorporated and domiciled in the UK. 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 assets of £7,724,000 (2020: £6,904,000) 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 2022. 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 primarily from disruption in global supply chains and higher cost inflation, 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

The directors approved a final dividend of £750,000 paid on 27 September 2021 and £806,153 paid on 29 December 2021. (31 December 2020: £750,000).

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 2020: £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
G Shirley
A Lewis-Coy
B Mitchell
V Rizzioli
J Esau (retired 12 October 2021)
A Rainford
E McDonald (appointed 1 July 2021)

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 company is committed to providing products to consumers that will promote good health and wellbeing and is adapting its supplier arrangements to ensure products are sourced in an environmentally friendly and socially responsible manner. The company has formed an Environment Social and Governance (ESG) Committee with overall responsibility to drive the ESG strategy and to monitor progress against key performance indicators.

The company has also had to adapt the way it does business with its European Union (EU) partners under the current trade agreement, as the Brexit transition period came to an end on 31 December 2020.

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

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 in respect of the financial statements

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, 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- 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


Kerry-Ann Lincoln
Company Secretary
3 March 2022

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 2021 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 2021; the income statement, statement of other comprehensive income and 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

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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 2021 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, 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.

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.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to food safety regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct

impact on the financial statements such as taxation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results. Audit procedures performed by the engagement team included:

- discussion with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud
- identifying and testing the validity of journal entries, in particular any journal entries with unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 obtained 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.

RP Girdlestone

Robert Girdlestone (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
3 March 2022

Income statement for the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Revenue	5	80,705	77,624
Cost of sales		(59,198)	(57,376)
Gross Profit		21,507	20,248
Distribution costs		(3,613)	(3,434)
Administrative expenses		(14,777)	(14,270)
Impairment reversal / (charge) of trade receivables		102	(109)
Operating profit	6	3,219	2,435
Finance income		6	-
Finance expenses	9	(232)	(267)
Profit before income tax		2,993	2,168
Income tax expense	10	(617)	(435)
Profit for the financial year		2,376	1,733

Statement of other comprehensive income

For the year ended 31 December 2021

Profit for the financial year	2,376	1,733
Other comprehensive income	-	-
Total comprehensive income for the year	2,376	1,733

The notes on pages 13 to 27 form part of these financial statements.
The results for the year arise solely from continuing activities.

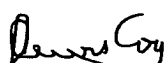
Statement of financial position

As at 31 December 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Property, plant and equipment	11	1,747	1,999
Right of use assets	12	5,886	6,446
Investments	13	-	-
		7,633	8,445
Current assets			
Inventory	14	11,816	15,414
Trade and other receivables	15	11,364	10,511
Cash at bank and in hand		111	116
		23,291	26,041
Total assets		30,924	34,486
Current liabilities			
Trade and other payables	16	14,919	19,003
Lease liabilities	12	1,598	1,703
Borrowings	17	2,081	1,539
		18,598	22,245
Non-current liabilities			
Lease liabilities	12	4,602	5,337
Total liabilities		23,200	27,582
Equity			
Called up share capital	20	-	-
Retained earnings		7,724	6,904
Total equity		7,724	6,904
Total equity and liabilities		30,924	34,486

The notes on pages 13 to 27 are an integral part of these financial statements.

The financial statements on pages 10 to 27 were approved by the board of directors and authorised for issue on 3 March 2022 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 2021

	Called up share capital £'000	Retained earnings £'000	Total Shareholders' Fund £'000
Balance as at 1 January 2020	-	5,921	5,921
Profit for the financial year	-	1,733	1,733
Total comprehensive income for the year	-	1,733	1,733
Dividends	-	(750)	(750)
Total transactions with owners, directly recognised in equity	-	(750)	(750)
Balance as at 31 December 2020	-	6,904	6,904
Balance as at 1 January 2021	-	6,904	6,904
Profit for the financial year	-	2,376	2,376
Total comprehensive income for the year	-	2,376	2,376
Dividends	-	(1,556)	(1,556)
Total transactions with owners, directly recognised in equity	-	(1,556)	(1,556)
Balance as at 31 December 2021	-	7,724	7,724

Notes to the financial statements for the year ended 31 December 2021

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 The Companies Act 2006 as applicable to companies using 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.

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.

Notes to the financial statements for the year ended 31 December 2021 (continued)

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 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 5 – 20 years	5% - 20%

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

Notes to the financial statements for the year ended 31 December 2021 (continued)

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 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. 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):

Notes to the financial statements for the year ended 31 December 2021 (continued)

- Debt investments that do not qualify for measurement at amortised cost.
- 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.

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.

Notes to the financial statements for the year ended 31 December 2021 (continued)

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.

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 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.

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.

Notes to the financial statements for the year ended 31 December 2021 (continued)

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.

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; and
- Any initial direct costs.

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.

2.16 Dividend income

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

Notes to the financial statements for the year ended 31 December 2021 (continued)

2.17 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.

2.18 Financial guarantees

Financial guarantees are initially recognised at fair value and are subsequently measured at the higher of (a) the IFRS 9 expected credit loss (ECL) allowance and (b) the amount initially recognised less, when appropriate, cumulative amount of income/amortisation recognised.

2.19 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 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. There are no 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.

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 2021 (continued)

5. Revenue

Analysis of revenue by geographical markets	2021	2020
	£'000	£'000
UK	75,685	70,008
Rest of Europe	4,848	7,108
Rest of the World	172	508
	<u>80,705</u>	<u>77,624</u>

Analysis of revenue by category	2021	2020
	£'000	£'000
Sales of goods	<u>80,705</u>	<u>77,624</u>

6. Operating profit

Operating profit is stated (crediting)/charging	2021	2020
	£'000	£'000
Wages and salaries	6,441	6,342
Social security costs	662	664
Other pension costs	235	209
Staff costs	<u>7,338</u>	<u>7,215</u>
Loss on disposal of property, plant and equipment	47	-
Impairment (reversal) / charge of trade receivables	(102)	109
Impairment (reversal) / charge of inventory (included in 'cost of sales')	(14)	62
Auditors' remuneration - audit	99	96
Auditors' remuneration - tax services	17	25
Auditors' remuneration - other services	20	66
Depreciation of owned tangible fixed assets	430	469
Depreciation of Right of Use Assets	<u>1,603</u>	<u>1,426</u>

7. Directors' emoluments

	2021	2020
	£'000	£'000
Aggregate emoluments	287	260
Company contributions to money purchase pension schemes	<u>19</u>	<u>18</u>
	<u>306</u>	<u>278</u>

Notes to the financial statements for the year ended 31 December 2021 (continued)

Retirement benefits accruing to the following number of directors under:

	2021	2020
Money purchase schemes	1	1

	2021 £'000	2020 £'000
Highest paid director		
Aggregate emoluments	275	250
Company contributions to money purchase pension schemes	19	18
	294	268

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

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

	2021 No.	2020 No.
By activity		
Sales and administration	97	98
Distribution	82	85
	179	183

9. Finance expenses

	2021 £'000	2020 £'000
Bank interest payable	58	74
Loan interest	-	21
IFRS16 lease interest payable	174	172
	232	267

10. Tax on profit

	2021 £'000	2020 £'000
Tax charge included in the income statement		
Current tax:		
– UK Corporation tax on profits for the year	577	408
– Adjustment in respect of prior periods	8	9
Total current tax	585	417

Notes to the financial statements for the year ended 31 December 2021 (continued)

Deferred tax:	2021	2020
	£'000	£'000
Current year	9	13
Effect of changes in tax rates	23	5
Total deferred tax	<u>32</u>	<u>18</u>
Tax on profit	<u>617</u>	<u>435</u>
	2021	2020
	£'000	£'000
Profit before taxation	2,993	2,168
Tax on profit at standard UK tax rate of 19.00% (2020: 19.00%)	<u>569</u>	<u>412</u>
<i>Effects of:</i>		
– Adjustments in respect of prior years	8	9
– Tax rate changes	23	5
– Expenses not deductible for tax purposes – other	17	9
Income tax expense	<u>617</u>	<u>435</u>

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

Changes to the UK corporation tax were enacted as part of the Finance Act 2021 in which the rate of corporation tax will remain at 19% for 2022/23, but there will then be an increase to 25% from April 2023 applying to profits over £250,000.

Notes to the financial statements for the year ended 31 December 2021 (continued)

11. Property, plant and equipment

	Premises Leasehold Improvements £'000	Plant, Machinery & Equipment £'000	Motor Vehicles £'000	Furniture & Fixtures £'000	Total £'000
Cost					
At 1 January 2020	1,799	4,932	14	772	7,517
Additions	28	144	-	12	184
At 31 December 2020	1,827	5,076	14	784	7,701
Additions	-	222	-	-	222
Disposals	(70)	(953)	(14)	(273)	(1,310)
At 31 December 2021	1,757	4,345	-	511	6,613
Accumulated Depreciation					
At 1 January 2020	(1,189)	(3,358)	(14)	(672)	(5,233)
Depreciation Charge	(82)	(359)	-	(28)	(469)
At 31 December 2020	(1,271)	(3,717)	(14)	(700)	(5,702)
Depreciation Charge	(82)	(324)	-	(24)	(430)
Eliminated on disposals	56	926	14	270	1,266
At 31 December 2021	(1,297)	(3,115)	-	(454)	(4,866)
Net Book Value					
At 31 December 2020	556	1,359	-	84	1,999
At 31 December 2021	460	1,230	-	57	1,747

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	2021 £'000	2020 £'000
Right of Use Assets		
Leasehold Premises	5,700	6,262
Other	186	184
	5,886	6,446
Lease Liabilities		
Current	1,598	1,703
Non-Current	4,602	5,337
	6,200	7,040

Notes to the financial statements for the year ended 31 December 2021 (continued)

Additions to the right-of-use assets during the 2021 financial year were £1,082,000.

ii. Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	Note	2021 £'000's	2020 £'000's
Depreciation charge of right-of-use assets			
Leasehold Premises		1,492	1,167
Motor Vehicles		97	209
Equipment		14	50
		<u>1,603</u>	<u>1,426</u>
 Interest expense (included in finance cost)	9	 174	 172
Expense relating to short-term leases (included in Administrative expenses)		145	178
 Future minimum lease payments as at 31 December 2021 are as follows:		 2021 £'000	 2020 £'000
Not later than one year		1,734	1,855
Later than one year and not later than five years		4,900	5,605
Total gross payments		<u>6,634</u>	<u>7,460</u>
Impact of finance expenses		(434)	(420)
Carrying amount of liability		<u>6,200</u>	<u>7,040</u>

The total cash outflow for leases in 2021 was £2,060,000 (2020: £1,668,000).

Notes to the financial statements for the year ended 31 December 2021 (continued)

13. Investments

	2021 £'000	2020 £'000
Shares in group undertakings		
At 31 December	-	-

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

	2021 £'000	2020 £'000
Raw materials and consumables	954	892
Finished goods and goods for resale	10,862	14,522
	11,816	15,414

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 199,000 (2020: £213,000).

The cost of inventories is recognised as an expense and included in 'Cost of sales' and amounted to £59,198,000 (2020: £57,376,000).

15. Trade and other receivables

	2021 £'000	2020 £'000
Trade debtors	10,230	9,613
Prepayments and accrued income	894	817
Other debtors	240	81
	11,364	10,511

Notes to the financial statements for the year ended 31 December 2021 (continued)

16. Trade and other payables

	2021	2020
	£'000	£'000
Amounts owed to group undertakings	1,178	2,524
Trade creditors	9,155	12,352
Taxation and social security	153	150
Accruals	4,270	3,858
Other creditors	73	61
Deferred Tax (Note 18)	90	58
	14,919	19,003

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

	2021	2020
	£'000	£'000
Bank overdraft	1,564	1,127
Loan falling due within one year (DIT)	517	412
	2,081	1,539

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

18. Deferred tax

	Deferred Tax Liability £'000
At 1 January 2020	40
Deferred tax charge to I/S for the period	18
At 31 December 2020	58
At 1 January 2021	58
Deferred tax charge to I/S for the period	32
At 31 December 2021	90

	2021	2020
	£'000	£'000
Deferred tax liabilities due after more than 12 months	90	58
	90	58

Notes to the financial statements for the year ended 31 December 2021 (continued)

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:

	2021 £'000	2020 £'000
Current period contributions	235	209
	<u>235</u>	<u>209</u>

Contributions amounting to £40,000 (31 December 2020: £40,000) were payable to the scheme at the end of the financial year and are included in creditors.

20. Called up share capital

	2021 £'000	2020 £'000
Allotted and fully paid		
4 (2020: 4) ordinary shares of £0.25 (2020: £0.25)	-	-
	<u>-</u>	<u>-</u>

All shares rank pari passu in all respects.

21. 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