

Whyte and Mackay Limited

Directors' Report and Financial Statements

Year ended 31 December 2019

Registered number: SC014456



Whyte and Mackay Limited
Directors' report and financial statements
Year ended 31 December 2019

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Whyte and Mackay Limited

Directors and advisers

Directors

W Co
J Cortes
J Domecq
B H Donaghey
Dr A Tan

Registered office

St Vincent Plaza
4th Floor
319 St Vincent Street
Glasgow
G2 5RG

Independent statutory auditor

Grant Thornton UK LLP
Chartered Accountants and Statutory Auditor
Level 8
110 Queen Street
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G1 3BX

Solicitors

Wright, Johnston & Mackenzie LLP
302 St Vincent Street
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G2 5RZ

Bankers

Bank of Scotland
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EH1 1YZ

Whyte and Mackay Limited

Strategic report for the year ended 31 December 2019

The directors present their report together with the audited financial statements for the year ended 31 December 2019.

Principal activities

During the year ended 31 December 2019, the company's principal activities were the production, marketing and distribution of Scotch whisky, vodka, liqueurs and other alcoholic drinks. Core brands include The Dalmore, Jura, Fettercairn and Tamnavulin malt whiskies, Vladivar vodka, Glavya liqueur, Whyte and Mackay, Claymore and John Barr blended scotch whiskies and Shackleton, a blended malt whisky. The company also distributed Harvey's Bristol Cream Sherry under a distribution agreement with Bodegas Fundador.

Strategy

The company's overriding objective is to operate as a global branded drinks business which delivers sustainable rates of growth and returns that increase overall shareholder value. The company operates throughout the world both directly and through distribution partners.

The company will seek to continue to extend its global reach focusing primarily on its Scotch business but also developing in other alcoholic beverage categories.

Business review

In 2019 the profit for the company increased with continued growth in our core brands. The Dalmore brand in particular performed strongly, supported by continued strategic marketing investment. Higher volumes through the company's production assets drove positive operational gearing which, coupled with tight control over supply chain costs and overheads, contributed to the profit for the period.

Operating profit has increased by 25% on the prior year due as our core brands continue to grow both domestically and internationally. The operating profit of £33,146,000 (2018: £26,452,000) is after exceptional costs of £683,000 (2018: £1,068,000). The company's operating profit before exceptional costs was £33,829,000 in 2019 (2018: £27,520,000), with EBITA before exceptional costs (earnings before interest, tax, and amortisation) of £35,584,000 in 2019 (2018: £30,105,000). The company has returned a profit for the financial year of £45,882,000 (2018: £37,797,000).

The company is committed to research and development activities in order to secure its position as one of the market leaders in the production, marketing and distribution of Scotch whisky, vodka, liqueurs and other alcoholic drinks. This mainly manifests itself in the launch of new products but also extends to improving and optimising our production assets and processes.

Key performance indicators ("KPI's")

Turnover

Company turnover increased by 13% through the continued growth in our core brands.

EBITA margin (%)

EBITA margin before exceptional items has increased to 18% in the current year.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. The key business risks affecting the company are set out below:

COVID-19:

COVID-19 is amongst the most significant events currently faced by the UK and at the date of signing these accounts the full extent to which the pandemic may impact the company's future results, operations and liquidity is uncertain. At present the global economy is suffering considerable disruption due to the effects of COVID-19. There is a risk of recession in many parts of the world and key areas of significant adverse impact are on Global Travel Retail and on consumption of alcohol in the on-trade in most markets. The company has undertaken a detailed review of the potential impacts of COVID-19 which could affect profitability through a combination of reduced sales, bad debt and other counterparty risks and the impact on retirement benefit obligations. The company will continue to monitor developments closely.

Competition:

Whyte and Mackay faces competition from a number of international companies as well as local and regional companies in the countries in which it operates. This competition puts pressure on pricing, margins and ultimately market share, and impacts on overall results. In order to mitigate this risk, management monitor market prices on an on-going basis and take steps to safeguard the overall competitive position of the business.

Material costs:

The raw materials used for the production of spirits are largely commodities that are subject to price volatility caused by changes in global supply and demand, weather conditions, agricultural uncertainty and Government controls. If commodity price changes result in unexpected increases in raw materials cost or the cost of packaging materials, Whyte and Mackay may not be able to increase its selling prices to completely offset these increased costs without suffering reduced volume, turnover and operating profit. The company mitigates this risk through effective supplier selection, procurement practices and effective monitoring of commodity markets supplemented by making appropriate price increases wherever possible.

Inventory risk:

Whyte and Mackay have a substantial inventory of aged stocks which mature over periods of up to 60 years. As at 31 December 2019 the historical cost of this stock amounted to £252,863,000 (2018: £230,077,000). The maturing inventory is stored in various locations across Scotland, and the loss through contamination, fire or other natural disaster of all or a portion of the stock could result in a significant reduction in supply of products. Consequently consumer demand for these products would not be met, and turnover and profitability would be adversely affected. This risk is partially mitigated by ensuring appropriate insurance coverage is in place and physical protection of the stock.

Whyte and Mackay Limited

Strategic report for the year ended 31 December 2019 (continued)

Brexit:

During the year the company set up a committee to review the implications of the United Kingdom leaving the European Union. The company has considered the risks presented by Brexit and at this stage do not perceive any material risk to the company's viability. The company will keep this under review as exit negotiations progress.

Financial risk management:

The company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The company's overall risk management programme focusses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. The company uses derivative financial instruments to hedge certain risk exposures.

The company's principal financial instruments, other than derivatives, comprise interest bearing loans, cash and cash equivalents. The main purpose of these financial instruments is to manage the company's funding and liquidity requirements. The company has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Risk management is carried out by the Finance Management Team approved by the Credit Committee. The Finance Management Team identifies, evaluates and hedges financial risks as follows:

Foreign exchange risk:

The company operates internationally and is exposed to foreign exchange risk arising from currency exposures, primarily in respect of the US dollar, Canadian dollar and Euros. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency.

The company's treasury risk management policy is to hedge net trading receipts in each major foreign currency using a layered rolling program. Forwards and swaps are used to hedge 100% of forecast exposure out 12 months, 50% out 24 months and 25% out 36 months.

Interest rate risk:

The company has an exposure to interest rate fluctuations on its borrowings and can manage these by the use of interest rate swaps. The objectives for the mix between fixed and floating rate borrowings are set to reduce the impact of an upward change in interest rates while enabling benefits to be enjoyed if interest rates fall. At the reporting date, the revolving credit facility is on a floating variable rate and the cashflow interest rate risk is considered minimal.

Liquidity risk:

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company manages liquidity risk by maintaining adequate banking facilities, by continuously monitoring forecast and actual cash flows on a daily, monthly and annual basis and matching the maturity profiles of financial assets and liabilities. The company has at its disposal additional undrawn facilities which further reduces liquidity risk.

Credit risk:

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet their contractual obligations and arises principally from amounts receivable from customers. The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer and before accepting any new customer, the company uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed and updated on a regular basis by the Treasury, Risk and Capital Committee.

Concentrations of credit risk with respect to trade receivables are limited at the year end due to the company's customer base being large and unrelated. There were no significant concentrations of credit exposure at the year end relating to other aspects of credit. Management therefore believe there is no further credit risk provision required in excess of the normal provision for doubtful receivables.

The carrying amount of financial assets disclosed at note 14, which includes trade receivables net of impairment losses, derivative financial instruments and cash represents the company's maximum exposure to credit risk.

Environmental policy

The company has an environmental policy which commits it to ensuring that its activities are conducted in ways which comply with the law and, so far as is reasonably and commercially practicable, do not harm the environment.

Employees

The company gives full and fair consideration to the employment of disabled persons for suitable jobs, as well as their training, career development and promotion within the company. Every effort is made to continue the employment of persons who become disabled whilst in the company's employment.

The company maintains its commitment to proactive programmes for involving its employees in its affairs. This is achieved in a variety of ways, including employee briefings, and by consultation with recognised trade unions.

The company's bonus schemes encourage employees at all levels to contribute to the company's short and long term goals.

Political and charitable donations

During the year the company gave no donation to any political organisation (2018: £nil). The company made charitable donations of £15,000 during the year (2018: £15,000).

Whyte and Mackay Limited

Strategic report for the year ended 31 December 2019 (continued)

Going concern

As disclosed in these accounts the company has produced a profit for the financial year of £45,882,000 (2018: £37,797,000) and has net assets of £569,688,000 at 31 December 2019 (2018: £528,934,000). Based on the current trading projections including an assessment of the impacts of the COVID-19 pandemic discussed on page 12, and continued support through intercompany funding from Emperador UK Limited, the directors consider that it is appropriate for the accounts to be prepared on the going concern basis.

Approved by the board of directors and signed on its behalf by:



B H Donaghey
Director
17th June 2020

Whyte and Mackay Limited

Directors' report for the year ended 31 December 2019

The financial statements incorporating the results for the year ended 31 December 2019 are set out on pages 8 to 28. The directors proposed the payment of an interim dividend of £5,289,000 on 10th December 2019. The dividend was paid on 4th February 2020. The directors do not recommend the payment of a final dividend (2018: £nil) with the profit for the financial year of £45,882,000 (2018: £37,797,000) being taken to reserves.

Risk management objectives and policies including exposure to price, credit and liquidity risk have been disclosed within the strategic report.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:-

W Co
J Cortes
J Domecq
B H Donaghey
Dr A Tan

Auditors

Grant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 and profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- IFRSs as adopted by the European Union have been followed where applicable, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors confirm that:

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

Approved by the board of directors and signed on its behalf by:



B H Donaghey
Director
17th June 2020

Whyte and Mackay Limited

Independent auditor's report to the members of Whyte and Mackay Limited

Opinion

We have audited the financial statements of Whyte & Mackay Limited (the 'company') for the year ended 31 December 2019 which comprise the income statement, the statement of other comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flow and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as COVID-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

COVID-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- 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.

In our evaluation of the directors' conclusions, we considered the risks associated with the company's business, including effects arising from macro-economic uncertainties such as COVID-19 and Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report has been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

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

Whyte and Mackay Limited

Independent auditor's report to the members of Whyte and Mackay Limited (continued)

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Andrew Howie
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP,
Statutory Auditor, Chartered Accountants
Glasgow
17th June 2020

Whyte and Mackay Limited
Income statement

	Notes	Year ended 31 December 2019 £ 000	Year ended 31 December 2018 £ 000
Revenue	2	209,739	185,982
Excise duties		(37,224)	(30,728)
Net revenue		172,515	155,254
Operating profit before exceptional items	2	33,829	27,520
Exceptional items	3	(683)	(1,068)
Operating profit		33,146	26,452
Finance income	6	24,574	22,400
Finance costs	6	(7,529)	(6,950)
Profit before income tax		50,191	41,902
Income tax expense	7	(4,309)	(4,105)
Profit for the period attributable to equity holders of the parent		45,882	37,797

Statement of other comprehensive income

	Notes	Year ended 31 December 2019 £ 000	Year ended 31 December 2018 £ 000
Profit for the period attributable to equity holders of the parent		45,882	37,797
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Actuarial gains / (losses) on retirement benefits	19	1,881	(2,825)
Tax on items taken directly to equity	7	(320)	481
		1,561	(2,344)
Other comprehensive income / (expense) for the period, net of tax		1,561	(2,344)
Total comprehensive income for the period attributable to equity holders of the parent		47,443	35,453

The above results relate to continuing operations.

The accounting policies and notes set out on pages 12 to 28 form an integral part of these financial statements.

Whyte and Mackay Limited
Registered number: SC014456
Balance sheet

		31 December 2019 £000	31 December 2018 £000
	Notes		
Non-current assets			
Intangible assets	8	18,277	19,974
Property, plant and equipment	9	124,321	97,228
Available-for-sale financial assets	10	2,362	2,362
Retirement benefit assets	19	8,018	2,114
		152,978	121,678
Current assets			
Inventories	11	266,659	243,201
Trade and other receivables	12	317,864	295,652
Cash and cash equivalents		3,102	5,550
		587,625	544,403
Total assets		740,603	666,081
Current liabilities			
Interest bearing loans and borrowings	13	(77,303)	(61,113)
Trade and other payables	15	(63,375)	(61,301)
Derivative financial instruments	14	(138)	(649)
Lease liabilities	16	(1,325)	-
Current tax liabilities	15	(575)	(482)
Provisions for other liabilities	17	(2,721)	(2,718)
		(145,437)	(126,263)
Non-current liabilities			
Provisions for other liabilities	17	(4,531)	(9,517)
Deferred income tax liabilities	7	(4,317)	(1,367)
Lease liabilities	16	(16,630)	-
		(25,478)	(10,884)
Total liabilities		(170,915)	(137,147)
Net assets		569,688	528,934
Equity			
Share capital	18	178,973	178,973
Retained earnings	18	390,715	349,961
Total equity		569,688	528,934

The accounting policies and notes set out on pages 12 to 28 form an integral part of these financial statements.

These financial statements were approved by the board of directors and were signed on its behalf by:



B H Donaghey
 Director
 17th June 2020

Whyte and Mackay Limited
Statement of changes in equity

	Share Capital £ 000	Retained Earnings £ 000	Total Equity £ 000
2018			
Balance as at 1 January 2018	178,973	314,508	493,481
Profit for the year	-	37,797	37,797
Other comprehensive income and expense	-	(2,344)	(2,344)
Balance as at 31 December 2018	178,973	349,961	528,934
2019			
Balance as at 1 January 2019	178,973	349,961	528,934
Adjustment from adoption of IFRS 16	-	(1,400)	(1,400)
Adjusted balance at 1 January 2019	178,973	348,561	527,534
Dividends proposed	-	(5,289)	(5,289)
Profit for the year	-	45,882	45,882
Other comprehensive income and expense	-	1,561	1,561
Balance as at 31 December 2019	178,973	390,715	569,688

Whyte and Mackay Limited
Statement of cash flows

	Notes	Year ended 31 December 2019 £ 000	Year ended 31 December 2018 £ 000
Cash flows from operating activities			
Profit for the year		45,882	37,797
Income tax expense	7	4,309	4,105
Finance income and expense	6	(17,045)	(15,450)
Depreciation, amortisation and impairment		6,473	5,440
Increase in trade and other receivables		(22,212)	(5,754)
Increase in inventories		(20,650)	(27,742)
Increase in trade and other payables		15,808	18,334
Net retirement benefit cost	19	(3,902)	(3,902)
Cash expended from operations		8,663	12,828
Income tax paid		(1,294)	(550)
Net cash expended from operating activities		7,369	12,278
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		450	382
Purchases of property, plant and equipment	9	(22,743)	(16,257)
Purchases of intangible assets	8	(58)	(153)
Net cash outflow from investing activities		(22,351)	(16,028)
Cash flows from financing activities			
Proceeds from borrowings	13	15,331	6,430
Repayment of lease liabilities		(2,331)	-
Loan repayments to parent company		(93)	(6)
Interest received		911	911
Interest paid		(1,284)	(1,170)
Net cash used in financing activities		12,534	6,165
Net (decrease) / increase in net cash and cash equivalents		(2,448)	2,415
Net cash and cash equivalents at beginning of the period	14	5,550	3,135
Net cash and cash equivalents at end of the period		3,102	5,550
Cash and cash equivalents note to the financial statements:			
Cash and cash equivalents	14	3,102	5,550
Cash and cash equivalents in the cash flow statement		3,102	5,550

Whyte and Mackay Limited

1. Significant accounting policies

General information

Whyte and Mackay Limited ("the Company") produces, markets and distributes Scotch whisky, vodka, liqueurs and other alcoholic drinks in the UK, Europe and International markets. The company operates five distilleries and a bottling hall in Scotland. The company is a private limited company and is incorporated and domiciled in the UK. The address of its registered office is St Vincent Plaza, 319 St Vincent Street, Glasgow, G2 5RG.

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards as endorsed and adopted for use in the European Union (IFRS) and in accordance with the Companies Act 2006.

Basis of preparation

The financial statements of the company have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, except for certain items of property, plant and equipment which were valued at fair value being deemed cost at date of transition to IFRS, derivative financial instruments and the assets and liabilities of the defined benefit pension scheme which are stated at fair value through profit or loss.

The full extent to which the COVID-19 pandemic may impact the Company's results, operations or liquidity is uncertain. At present the global economy is suffering considerable disruption due to the effects of COVID-19 and the Company has given serious consideration to the consequences of this on trading, operations and for the cashflows and asset values of the Company specifically over the next twelve months. In assessing the going concern basis of accounting Management has considered ongoing compliance with loan covenants, availability of credit lines and the year-end cash balances and forecast cash flows. At present the Company's financial situation does not suggest that covenants are close to being breached. The analysis performed has considered the extraordinary nature of the current economic situation and included a number of stress tests to examine the possible circumstances which could result in the Company's covenants being breached. Based on this analysis, the circumstances which would give rise to a covenant breach are highly unlikely. In addition, Management has performed a COVID-19 impact analysis on the Company's liquidity position using information available as at the date of issue of these financial statements. This analysis has modelled a number of adverse scenarios to assess the potential impact that COVID-19 may have on Company's liquidity as well as incorporating mitigations available to manage liquidity. Having considered the likelihood of the events which could cause a liquidity issue and the remedies available to the Company, Management is of the view that the Company is well placed to manage such an eventuality satisfactorily. Based on this information, Management believe that the Company has the ability to meet its financial obligations as they fall due for a period of at least twelve months from the date of approval of the financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

The company is exempt by virtue of Section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements since the company is itself a wholly owned subsidiary of another company incorporated in the United Kingdom. The accounting policies below have been applied consistently to all periods presented in the financial statements. The financial statements are presented in sterling.

Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of the amount, events or actions, ultimately actual results may differ from those estimates. The key estimates and assumptions used in these financial statements are set out below.

Retirement benefit obligations

A qualified independent actuary undertakes the estimation of the present value of the company's obligations under the defined benefit pension scheme using assumptions taken from a range of possible actuarial assumptions. These assumptions may not be borne out in practice, especially due to the long timescales involved. Details of assumptions employed to determine the liability at the balance sheet date are set out in the notes to the financial statements. The valuation of scheme assets is based on the fair value at the balance sheet date. As these assets are not intended to be sold in the short-term, their value may change significantly prior to realisation.

Taxation

Judgement is required in determining the provision for income taxes. There are many transactions and calculations whose ultimate tax treatment is uncertain. The company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes are likely to be due. The company recognises deferred tax assets and liabilities based on estimates of future taxable income and recoverability. Where a change in circumstance occurs, or the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax balances in the year in which that change or outcome is known.

Whyte and Mackay Limited**1. Significant accounting policies (continued)****Testing intangible assets for impairment**

The company tests whether intangible assets with an finite life have any impairment where there is an indication of impairment. The recoverable amounts of cash generating units are determined based on value-in-use calculations which require estimating future cash flows. If actual cash flows are lower than estimated there is a risk that future impairments would be necessary. In addition the Company reassesses the useful life of intangible assets with finite lives. Further details are set out in the relevant accounting policy note.

Property, plant and equipment

It is necessary for the company to make use of judgement when determining the useful life of the property, plant and equipment. Details of these estimates are set out in the relevant accounting policy note.

Standards, interpretations and amendments to published standards that are not yet effective

At the date of authorisation of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB and adopted by the European Union. None of these Standards or amendments to existing Standards have been adopted early by the Company.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Company's financial statements.

Standards effective from 1 January 2019**IFRS 16 - Leases**

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Lease-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Company recognising a right-of-use asset and a related liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of the initial application. The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of the initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as a lease under IAS 17 and IFRIC 14.

The Company has not elected to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Company's incremental borrowing rate.

The Group performed an impairment review on the right-of-use assets at the date of the initial application as to whether leases were onerous. On transition, for leases previously accounted for as operating lease with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 5.5%.

The following is a reconciliation of opening retained earnings as a result of the adoption of IFRS 16:

	Total £000
Opening retained earnings at 1 January 2019	349,961
Right-of-use assets	12,405
Lease liability	(19,228)
Trade and other payables	451
Onerous lease provisions	4,685
Deferred taxation	287
Restated opening retained earnings at 1 January 2019	348,561

Whyte and Mackay Limited**1. Significant accounting policies (continued)****Standards effective from 1 January 2019 (continued)**

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

	Total £000
Total operating lease commitments disclosed at 31 December 2018	27,806
Recognition exemptions: leases of low value assets	
- Leases of low value assets	(140)
- Leases with remaining lease term of less than 12 months	(312)
- Other minor adjustments relating to commitment disclosures	(457)
	(909)
Operating lease liabilities before discounting	26,897
Discounted using incremental borrowing rate	(4,211)
Impairment	(3,458)
Total lease liabilities recognised under IFRS 16 at 1 January 2019	19,228

Going concern

The company meets its day-to-day working capital requirements through its bank facilities. The company forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within facilities available to it. 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. Further information on the company's borrowings is given at note 13.

Revenue recognition

Revenue represents amounts receivable from the sale of cased and bulk alcohol, and includes warehouse rents receivable. Revenue includes excise duties and is stated net of discounts, returns and sales taxes. Revenue is recognised depending upon individual customer terms at the time of despatch, delivery or some other specified point when the risk of loss transfers. On application of IFRS 15 some changes in accounting policy resulted, principally in respect of variable consideration receivable for where the criteria applied for deducting future promotional payments from the initial revenue recognition was more stringent than the previous policy. The revised policy establishes that revenue is recognised to the extent that it is highly probable that a reversal in the amount of revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently settled.

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the company. They are material items of income and expense that have been shown separately due to the significance of their nature or amount.

Leasing

The Group as a lessee: -

For any new contracts entered into on or after 1 January 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
- the Company has the right to obtain substantially all the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Company has the right to direct the use of the identified assets throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use

Measurement and recognition of leases as a lessee

At lease 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, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use-assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

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 interest rate implicit in the lease at the Company's incremental borrowing rate.

Whyte and Mackay Limited

1. Significant accounting policies (continued)

Leasing (continued)

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed). Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are any changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using practical expedients. Instead of recognising a right-of-use and a lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included within current and non-current liabilities.

The Company as a lessor: -

The Company's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor the Company classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

Property, plant and equipment

Property, plant and equipment is carried at historical cost less accumulated depreciation. Historical cost includes purchase price and directly attributable costs of bringing the asset into the location and condition where it is capable for use. Borrowing costs are capitalised.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Buildings are depreciated on a straight-line basis over 50 years.

Other property, plant and equipment are depreciated on a straight-line basis at annual rates estimated to allocate the cost to residual value of each asset over its useful life from the date it is available for use. Assets in the course of construction are not depreciated until they are available for use. The principal useful lives used are as follows:

Plant and machinery: 10-20 years

Casks: 20 years

Vehicles, fittings and equipment: 3-15 years

Residual values and useful lives are reviewed on an annual basis with the effect of any changes in estimate being accounted for on a prospective basis.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Intangible assets

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date. Intangible assets acquired separately from a business are reported at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets that are regarded as having indefinite useful economic lives are not amortised. Intangible assets that are regarded as having limited useful economic lives are amortised on a straight-line basis over those lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Separately acquired trademarks and distribution rights are shown at historical cost less accumulated amortisation and accumulated impairment losses. These brands are amortised over 20 years on a straight-line basis.

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 15 years.

Whyte and Mackay Limited

1. Significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use and is determined for an individual asset. If the asset does not generate cash inflows that are largely independent of those from other assets or company's of assets, the recoverable amount of the cash generating unit to which the asset belongs is determined. Value in use is calculated by discounting estimated future cash flows using an appropriate weighted average cost of capital.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes raw materials, direct labour and expenses, an appropriate proportion of production and other overheads (including depreciation), but not borrowing costs. Net realisable value is the estimated selling price for inventories in the normal course of business, less applicable variable selling expenses. Provision is made, where appropriate, for obsolete, slow moving and defective stocks.

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 that obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Provisions for restructuring are recognised for direct expenditure on business reorganisations where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken on or before the balance sheet date.

Employee benefits

Wages, salaries, social security contributions, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the company. Where the company provides long-term employee benefits, the cost is accrued to match the rendering of the services by the employees concerned.

The company closed the Defined Benefit Pension Scheme to future accrual on 1 April 2012 and now operates a defined contribution pension plan. The 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 periods. The defined benefit plan defines the amount of pension benefit that the company's employees will receive on retirement, usually dependent on a number of factors including age, length of service and compensation.

The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligations at the end of the reporting period less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension obligation.

Past service costs and gains and losses on settlements and curtailments are recognised immediately in income.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in finance income and expense in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Contributions under the defined contribution pension plan are charged to operating expenses in the income statement as they arise. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

Whyte and Mackay Limited

1. Significant accounting policies (continued)

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is charged or credited directly to other comprehensive income or equity if it relates to items that are credited or charged to equity. Otherwise tax is recognised in the income statement.

The current income tax charge is measured based on tax rates and laws that are enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Current tax assets or liabilities on the balance sheet are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except for deferred tax liabilities arising from the initial recognition of goodwill and if they arise from the 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 measured, on an undiscounted basis, using tax rates and laws that are 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 taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented net only if there is a legally enforceable right to set off current tax assets against current tax liabilities and if the deferred income tax 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.

Financial assets

The company classifies its financial assets in the following categories: at fair value through profit or loss; loans and receivables; and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet. Trade and other receivables are non-interest bearing and are stated at their nominal amount that is usually the original invoiced amount less any provision for impairment. Cash and cash equivalents comprise cash in hand and deposits held at call with banks with a maturity of three months or less. In the statement of cashflows, cash and cash equivalents includes bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Financial liabilities

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of borrowings is recognised in the income statement over the term of the borrowings using the effective interest rate.

Trade payables are non-interest bearing and are stated at their nominal value.

Whyte and Mackay Limited

1. Significant accounting policies (continued)

Derivative financial instruments

The activities of the company expose it directly to the financial risks of changes in foreign exchange rates. The company uses forward foreign exchange contracts to hedge these exposures. The company does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially recorded and subsequently measured at fair value. The treatment of changes in fair value of derivatives depends on the derivative classification and whilst transactions may be effective hedges in economic terms they may not always qualify for hedge accounting. Due to the nature of the company's forward foreign exchange contracts hedge accounting is not adopted. Consequently, movements in fair value that do not qualify for hedge accounting are recognised as finance income and expense in the income statement as they arise.

Foreign currency translation

Items included in the financial statements of each of the company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in sterling, which is the company's presentation currency.

Transactions in currencies other than sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at historical cost that are denominated in foreign currencies are translated at the rates prevailing at the date when the historical cost was determined. Gains and losses arising on retranslation are included in the income statement.

Equity, reserves and dividend payments

Share capital represents the nominal (par) value of shares that have been issued.

Other components of equity include the remeasurement of net defined benefit liability – comprising the actuarial gains and losses from changes in demographic and financial assumptions and the return on plan assets.

Retained earnings includes all current and prior period retained profits. Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

NOTES TO THE FINANCIAL STATEMENTS for the 12 months ended 31 December 2019

2. Profit from operations

An analysis of the Company's profit from operations is as follows:

	December 2019	December 2019 Exceptional items	December 2019 Total	December 2018	December 2018 Exceptional items	December 2018 Total
	£000	£000	£000	£000	£000	£000
Revenue	209,739	-	209,739	185,982	-	185,982
Excise duties	(37,224)	-	(37,224)	(30,728)	-	(30,728)
Net revenue	172,515	-	172,515	155,254	-	155,254
Cost of sales	(121,543)	-	(121,543)	(110,216)	-	(110,216)
Gross profit	50,972	-	50,972	45,038	-	45,038
Distribution costs	(2,151)	-	(2,151)	(2,234)	-	(2,234)
Selling and administration expenses	(14,992)	(683)	(15,675)	(15,284)	(1,068)	(16,352)
Profit from operations before exceptional items	33,829	(683)	33,146	27,520	(1,068)	26,452
Exceptional items	(683)	683	-	(1,068)	1,068	-
Profit from operations	33,146	-	33,146	26,452	-	26,452

	December 2019 £000	December 2018 £000
Profit from operations is stated after charging / (crediting)		
Exceptional items	683	1,068
Depreciation of property, plant and equipment - owned assets	4,718	2,854
Loss / (gain) on disposal of property, plant and equipment	79	(89)
Amortisation of definite life acquisition intangibles	1,467	2,297
Amortisation of software intangibles	288	288
Cost of inventories recognised as an expense	86,092	78,234
Operating lease rental expense - buildings	-	1,522
Operating lease rental expense - other	48	409
Trade receivables impairment	(613)	50
Audit services		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	17	15
Fees payable to the Company's auditor and its associates for other services:		
- Tax services	60	78
- All other services	15	6

The depreciation charged to the income statement includes depreciation charged direct from property, plant and equipment and that element of depreciation absorbed against inventory expensed through cost of sales.

3. Exceptional items

Items that are material either because of their size or their nature, or that are non-recurring are considered as exceptional items and are presented within the line items to which they best relate. During the year, the exceptional items as described below have been included in selling and administration expenses in the income statement.

Exceptional selling and administration expenses relate to the reorganisation of continuing operations and are categorised as follows:

	2019 Total £000	2018 Total £000
Redundancy	106	(300)
Onerous lease provision	(1,074)	1,337
Dilapidations	100	60
Route to market restructuring	1,254	(1,008)
Other restructuring	297	979
	683	1,068

Redundancy

Redundancy and other employee costs reflects various restructuring initiatives in 2019.

Onerous lease provision

This provision was set up in relation to leasehold properties in Edinburgh, which are vacant or sublet at a discount. Movements in the provision take account of current market conditions and expected future vacant periods. The onerous lease provision was reclassified under IFRS 16 Leases whereby a lease liability has been created.

Dilapidations

Provisions for dilapidations reflect the estimated cost to return leased properties in Glasgow and Edinburgh under tenant repairing clauses, to the landlord at the end of the tenancy in a specified condition.

Route to market restructuring

Route to market restructuring relates to the costs / (provision releases) associated with changes to route to market structures in both domestic and international markets.

Other restructuring

Other restructuring costs include non-recurring legal and professional fees and expenses incurred in relation to certain projects undertaken during the year.

NOTES TO THE FINANCIAL STATEMENTS for the 12 months ended 31 December 2019

4. Employees

The average number of people employed by the company is set out in the table below.

	December 2019	December 2018
By Activity	Number	Number
Sales, distribution and administration	210	196
Production	255	254
	465	450

The employee benefit expense recognised in the income statement is as follows:

	December 2019	December 2018
	£000	£000
Wages and salaries	23,003	21,720
Social security costs	2,451	2,405
Pension costs - defined contribution plans	2,496	2,449
	27,950	26,574

5. Directors emoluments

	December 2019	December 2018
	£000	£000
Aggregate emoluments	671	651
Highest paid director	671	651

There were no retirement benefits accruing to any directors in the current or prior period under the defined benefit pension scheme.

6. Finance income and expense

	December 2019	December 2018
	£000	£000
Finance income		
Interest receivable on cash and cash equivalents	7	2
Interest income on defined benefit pension scheme assets	5,206	4,916
Foreign exchange gains	255	9
Interest receivable on loans to related parties	17,690	16,564
Fair value gains on financial instruments at fair value through profit or loss	512	-
Other interest receivable	904	909
	24,574	22,400
Finance expense		
Interest payable on bank loans	(859)	(923)
Interest expense on leasing agreements	(1,057)	-
Interest payable on loans from related parties	(34)	-
Fair value losses on financial instruments at fair value through profit or loss	-	(941)
Provisions: unwinding of discount	(69)	-
Defined benefit scheme administration costs	(425)	(247)
Interest cost on defined benefit pension scheme liabilities	(5,085)	(4,839)
	(7,529)	(6,950)
Net finance income	17,045	15,450

7. Taxation

Taxation recognised in the income statement is as follows:

	December 2019	December 2018
	£000	£000
Current tax		
Current tax on profits for the year	1,758	1,032
Overseas tax	5	3
Adjustment in respect of prior years	(371)	-
Total current tax	1,392	1,035
Deferred tax		
Origination and reversal of temporary differences	2,886	2,841
Adjustments in respect of prior years	31	229
Total deferred tax	2,917	3,070
Income tax expense	4,309	4,105

NOTES TO THE FINANCIAL STATEMENTS for the 12 months ended 31 December 2019

7. Taxation (continued)

Tax reconciliation to UK statutory rate

The difference between the income statement expense and the standard rate of corporation tax in the UK is explained below:

	December 2019 £000	December 2018 £000
Profit before tax	50,191	41,902
Tax at the UK corporation tax rate of 19% (2018: 19%)	9,536	7,961
Tax effects:		
Expenses not deductible for tax purposes	372	599
Rate difference	(339)	(335)
Group relief	(4,920)	(4,349)
Adjustment in respect of prior years deferred income tax	(340)	229
Income tax expense	4,309	4,105

The tax rate was 19% (2018: 19%).

In the Spring Budget 2020, the government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the tax expense for the period by £470,000 and to increase the deferred tax liability by £508,000.

In addition to the amounts recorded in the income statement, deferred tax relating to the remeasurement of retirement benefit obligations totalling £320,000 charge (2018: £481,000 credit) was recognised through other comprehensive income.

The analysis of deferred tax (liabilities) is as follows:

	December 2019 £000	December 2018 £000
Deferred tax (liabilities):		
Deferred tax (liabilities) to be recovered after more than 12 months	(4,317)	(1,367)

The gross movement on the deferred income tax account is as follows:

	December 2019 £000	December 2018 £000
Balance at beginning of period	(1,367)	1,222
Adjustment in respect of prior years deferred income tax	256	(229)
Accelerated capital allowances and other short term timing differences	(2,886)	(2,841)
Tax (charge) / credit relating to components of other comprehensive income	(320)	481
Balance at end of period	(4,317)	(1,367)

The following are the major deferred tax assets and liabilities recognised by the company without taking into consideration the offsetting of balances within the same tax jurisdiction, and the movements thereon, during the current and prior reporting periods.

	Accelerated tax depreciation	Retirement benefit obligations	Other temporary differences	Total	Accelerated tax depreciation	Retirement benefit obligations	Other temporary differences	Total
	December 2019 £000	December 2019 £000	December 2019 £000	December 2019 £000	December 2018 £000	December 2018 £000	December 2018 £000	December 2018 £000
Net deferred tax asset / (liability) at beginning of period	744	(359)	(1,752)	(1,367)	2,597	(163)	(1,212)	1,222
Income statement	(1,489)	(684)	(457)	(2,630)	(1,853)	(677)	(540)	(3,070)
Statement of recognised income and expense	-	(320)	-	(320)	-	481	-	481
Net deferred tax (liability) / asset at end of period	(745)	(1,363)	(2,209)	(4,317)	744	(359)	(1,752)	(1,367)

Deferred tax assets and liabilities have been offset where the company has a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred tax assets and liabilities relate to income taxes levied by the same tax jurisdictions.

A deferred tax liability of £4,317,000 (December 2018: £1,367,000) has been recognised in respect of these temporary differences.

A deferred tax asset of £5,676,000 (December 2018: £5,676,000) which has not been recognised relates to capital losses.

Accelerated tax depreciation relates to plant and equipment and computer software.

NOTES TO THE FINANCIAL STATEMENTS for the 12 months ended 31 December 2019

8. Intangible assets

Cost	Goodwill £000	Trademarks £000	Distribution rights £000	Computer software £000	Total intangible assets £000
At 1 January 2019	297,168	36,119	29,346	2,421	365,054
Additions	-	-	-	58	58
Disposals	-	-	-	-	-
At 31 December 2019	297,168	36,119	29,346	2,479	365,112
Accumulated amortisation and impairment					
At 1 January 2019	297,168	36,119	11,123	670	345,080
Charge for the year	-	-	1,467	288	1,755
Disposals	-	-	-	-	-
At 31 December 2019	297,168	36,119	12,590	958	346,835
Net book value					
At 31 December 2018	-	-	18,223	1,751	19,974
At 31 December 2019	-	-	16,756	1,521	18,277

Separately acquired trademarks and distribution rights are shown at historical cost less accumulated amortisation and accumulated impairment losses. These brands are amortised over 20 years on a straight-line basis. The estimated remaining useful life of separately acquired distribution rights at 31 December 2019 is 12 years.

Computer software is amortised on a straight-line basis over estimated useful lives ranging from 3 to 15 years.

9. Property, plant and equipment

Cost	Land and buildings £000	Plant and machinery £000	Vehicles, fittings and equipment £000	Total property, plant and equipment £000
At 1 January 2019	57,090	116,821	4,144	178,055
Adjustment on transition to IFRS 16	11,326	-	1,079	12,405
Additions	4,181	16,379	2,183	22,743
Disposals	(17)	(4,119)	(19)	(4,155)
At 31 December 2019	72,580	129,081	7,387	209,048
Accumulated depreciation				
At 1 January 2019	15,518	63,109	2,200	80,827
Charge for the year	1,980	4,651	895	7,526
Disposals	(6)	(3,601)	(19)	(3,626)
At 31 December 2019	17,492	64,159	3,076	84,727
Net book value				
At 31 December 2018	41,572	53,712	1,944	97,228
At 31 December 2019	55,088	64,922	4,311	124,321

Contracts placed for future capital expenditure relating to property, plant and equipment not incurred and not provided in the financial statements at the reporting date amounted to £3,037,194 (December 2018: £6,252,000).

Included in the net carrying amount of land and buildings and vehicles, fittings and equipment are right-of-use assets as follows:

	December 2019 £000
Land and buildings	10,454
Vehicles, fittings and equipment	747
Total right-of-use assets	11,201

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

10. Investments and available-for-sale financial assets

	December 2019 £000	December 2018 £000
Investment in group undertakings	2,244	2,244
Non-current investments	118	118
	2,362	2,362

The directors believe that the carrying value of the investments is supported by their underlying net assets.

Non-current investments include the holding of 14.0% of the £1 ordinary shares of The Scotch Whisky Heritage Centre Limited, an unlisted company registered in Scotland, the principal activity of which is the operation of a visitor attraction in Edinburgh. These shares are measured at cost as they do not have a quoted market price in an active market and their fair value cannot be measured reliably.

The maximum exposure to credit risk at the reporting date is the carrying value of the investments. None of these financial assets is either past due or impaired.

NOTES TO THE FINANCIAL STATEMENTS for the 12 months ended 31 December 2019

11. Inventories

	December 2019 £000	December 2018 £000
Raw materials and consumables	3,811	3,568
Maturing whisky inventories	252,863	230,077
Finished goods	9,985	9,556
	266,659	243,201

12. Trade and other receivables

	December 2019 £000	December 2018 £000
Trade receivables	63,412	53,778
Less: provision for impairment	(379)	(1,160)
	63,033	52,618
Amounts owed by immediate parent company and fellow subsidiary undertakings	241,924	231,003
Amounts owed by group undertakings	1,610	610
Prepayments and accrued income	1,014	1,339
Other receivables	10,283	10,082
	317,864	295,652

The movement on the provision for impairment of trade receivables is as follows:

	2019 £000	2018 £000
Balance at beginning of year	1,160	1,085
Income statement (credit) / charge	(613)	50
Utilised	(168)	25
Balance at end of year	379	1,160

13. Interest bearing loans and borrowings

	December 2019 £000	December 2018 £000
Current		
Bank loans	77,303	61,113
Total interest bearing loans and borrowings	77,303	61,113

In 2018 the Company refinanced a 3 year term loan to fund the working capital requirements of the business. This term loan was secured by a floating charge over Whyte and Mackay Limited's assets, including a pledge over the Company's maturing stocks up to the value of the facility.

14. Financial instruments and financial risk management

Financial risk management

The company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. Management review and agree policies for the management of these risks on a regular basis. Further details of the risks and management policies are included in the strategic report.

Capital management

The company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure the company may adjust the amount of dividends paid to the shareholders, return capital to shareholders or issue new shares.

The company monitors capital using its gearing ratio, calculated as net borrowings divided by total capital.

Financial assets and financial liabilities

Financial assets and financial liabilities as disclosed in the balance sheets are shown in the table below:

		Carrying Value December 2019 £000	Carrying Value December 2018 £000
	Category		
Cash and cash equivalents	1	3,102	5,550
Cash and cash equivalents in the cash flow statement		3,102	5,550
Bank loans - current	2	(77,303)	(61,113)
Amounts due from related parties	1	243,534	231,613
Derivative financial instruments	3	(138)	(649)
Available-for-sale financial assets	4	118	118
Trade and other receivables excluding prepayments	1	73,316	62,700
Trade and other payables excluding non-financial liabilities	2	(63,375)	(61,301)
		179,254	176,918
Financial assets		320,070	299,981
Financial liabilities		(140,816)	(123,063)
		179,254	176,918

1. Loans and receivables
2. Financial liabilities at amortised cost
3. Fair value through profit or loss
4. Available-for-sale

NOTES TO THE FINANCIAL STATEMENTS for the 12 months ended 31 December 2019

14. Financial Instruments and financial risk management (continued)

The fair value of derivative financial instruments is based on market price of these instruments at the balance sheet date and are classified as level 2 in the fair value hierarchy under IFRS 13. Fair value is determined using observable interest rates corresponding to the maturity of the contract. The effects of non-observable inputs are not significant.

Available-for-sale financial assets are carried at cost as their fair value cannot be reliably measured.

The fair value of all other financial assets and liabilities approximates to the carrying amount because of the short maturity of these instruments.

Net gains and losses on financial assets and financial liabilities

	December 2019 £000	December 2018 £000
Interest receivable on cash and cash equivalents	7	2
Fair value gains / (losses) on financial instruments at fair value through profit or loss	512	(941)
Interest payable on bank loans	(859)	(923)
Interest receivable on loans to related parties	17,690	16,564
Interest payable on loans from related parties	34	-
	17,384	14,702

Liquidity risk

The contractual maturity profile of the anticipated future cash flows including interest in relation to the company's financial liabilities, on an undiscounted basis and which, therefore, differs from both the carrying value and fair value, is as follows:

	Trade and other payables December 2019 £000	Bank loans December 2019 £000	Related parties December 2019 £000	Total December 2019 £000	Trade and other payables December 2018 £000	Bank loans December 2018 £000	Related parties December 2018 £000	Total December 2018 £000
Within one year	62,436	77,383	1,511	141,330	56,337	61,174	5,446	122,957
Contractual cash flows	62,436	77,383	1,511	141,330	56,337	61,174	5,446	122,957
Effect of interest	-	(80)	-	(80)	-	(61)	-	(61)
	62,436	77,303	1,511	141,250	56,337	61,113	5,446	122,896

Interest rate risk

The interest rate profile of the company's interest bearing financial instruments are set out below. In the case of non-current financial liabilities, the classification includes the impact of interest rate swaps which convert the debt to fixed rate.

	Floating rate December 2019 £000	Fixed rate December 2019 £000	Total December 2019 £000	Floating rate December 2018 £000	Fixed rate December 2018 £000	Total December 2018 £000
Financial liabilities						
Interest bearing loans and borrowings						
Current	77,303	-	77,303	61,113	-	61,113
Sterling	77,303	-	77,303	61,113	-	61,113
Financial assets						
Cash and cash equivalents	3,102	-	3,102	5,550	-	5,550

Sensitivity analysis

The company monitors its interest rate exposure on a regular basis by applying forecast interest rates to the company's forecast net debt profile after taking into account its existing hedges. The company also calculates the impact on profit and loss of a defined interest rate shift for all currencies. Based on the simulations performed, the impact on profit or loss before taxation of a +/-100 basis point shift on floating rate net debt at the reporting date would be £740,000 (2018: £555,000).

Credit risk

The ageing of trade receivables at the reporting date was:

	December 2019 Gross £000	December 2019 Impairment £000	December 2018 Gross £000	December 2018 Impairment £000
Not past due	52,167	(52)	44,783	-
Past due 1-30 days	6,510	-	5,129	-
Past due 31-60 days	2,348	(2)	655	-
Past due 61-90 days	339	-	2,653	28
Past due + 90 days	2,047	433	558	1,132
	63,411	379	53,778	1,160

The carrying amount of trade receivables is denominated in the following currencies:

	December 2019 £000	December 2018 £000
Sterling	59,433	49,303
Euro	1,454	1,210
US Dollar	1,010	1,597
Canadian Dollar	1,135	508
	63,032	52,618

NOTES TO THE FINANCIAL STATEMENTS for the 12 months ended 31 December 2019

14. Financial instruments and financial risk management (continued)

The allowance for doubtful debts has been calculated based on past experience and is in relation to specific customers. Given the large and unrelated nature of our customer base, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

The carrying amount of financial assets which includes trade receivables net of impairment losses, derivative financial instruments and cash represents the company's maximum exposure to credit risk. The total carrying value of financial assets at 31 December 2019 amounted to £320,070,000 (2018: £299,981,000).

15. Trade and other payables

	December 2019 £000	December 2018 £000
Current liabilities		
Trade payables	8,979	7,639
Social security and other taxes excluding income tax	1,239	15
Corporation tax	575	482
Amounts owed to group undertakings	1,027	4,885
Amounts owed to subsidiary undertakings	484	561
Accrued expenses and deferred income	50,416	45,960
Other payables	1,230	2,241
	63,950	61,783

16. Leases

Lease liabilities are presented in the balance sheet as follows:

	December 2019 £000	December 2018 £000
Group		
Current	1,325	-
Non-current	16,630	-
	17,955	-

The Company has leases for a production plant and warehousing, an office and some vehicles. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. The Company classifies its right-of-use asset in a consistent manner to its property, plant and equipment (note 9).

Leases of vehicles are generally limited to a lease term of 2 to 8 years. Leases of property generally have a lease term ranging from 10 to 30 years. Lease payments are generally fixed payments.

Each lease generally imposes a restriction, that unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Company is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings and production premises the Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Company must insure vehicles and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Company's leasing activities by type of right-of-use asset recognised on the balance sheet:

Right-of-use asset	No of right-of-use-assets leased	Range of remaining lease term	Average remaining lease term	No of leases with extension options	No of leases with option to purchase	No of leases with termination options
Production plant, warehousing and office	3	7-17 years	11 years	-	-	1
Vehicles	58	1-7 years	2 years	48	48	58

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 December 2019 were as follows:

31 December 2019	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	After 5 years	Total
Lease payments	2,311	2,153	2,093	2,077	2,054	15,351	26,039
Finance charges	(986)	(914)	(846)	(779)	(707)	(3,852)	(8,084)
Net present values	1,325	1,239	1,247	1,298	1,347	11,499	17,955

Lease payments not recognised as a liability:

The Company has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expenses on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and expenses as incurred.

The expense relating to payments not included in the measurement of the lease liability is as follows:

	December 2019 £000
Group	
Short-term leases	155
Leases of low value assets	100
Variable lease payments	2
	257

NOTES TO THE FINANCIAL STATEMENTS for the 12 months ended 31 December 2019

16. Leases (continued)

Variable lease payment expenses on the basis that they are not recognised as a lease liability include excess use charges on office equipment. Variable payment terms are used for a variety of reasons, including minimising costs for infrequent use. Variable lease payments are expensed in the period they are incurred.

For leases that have not been reclassified under IFRS 16 with a right-of-use asset and a lease liability on the balance sheet their details are shown below.

The Company lease a warehouse under a non-cancellable operating lease agreement. The lease term is 1 year and is renewable at the end of the lease period at market rate. The Company also leases various low value assets. The lease expenditure charged to the consolidated income statements is disclosed at note 2.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 2019 £000	December 2018 £000
No later than one year	274	2,512
Later than 1 year and no later than 5 years	27	8,136
Later than 5 years	-	17,158
	301	27,806

A number of the leased buildings have been sublet to external tenants.

At the reporting date the total of future minimum sublease payments expected to be received under non-cancellable subleases was:

	December 2019 £000	December 2018 £000
No later than one year	211	298
Later than 1 year and no later than 5 years	894	485
Later than 5 years	53	-
	1,158	783

17. Provisions

	Onerous lease & dilatation provision £000	Provisions £000	Total £000
At 1 January 2019	10,235	2,000	12,235
Recognised in the income statement	(974)	353	(621)
Utilised in the year	(124)	-	(124)
Reclassification under IFRS 16	(4,238)	-	(4,238)
At 31 December 2019	4,899	2,353	7,252

	December 2019 £000	December 2018 £000
Analysis of total provisions		
Current liabilities	2,721	2,718
Non-current liabilities	4,531	9,517
Total provisions	7,252	12,235

Onerous lease provisions

These provisions were set up in relation to leasehold properties in Glasgow and Edinburgh, which are vacant or sublet at a discount. The provisions take account of current market conditions, expected future vacant periods, expected future sublet benefits and are calculated by discounting expected cash outflows on a pre-tax basis over the remaining period of the lease which at 31 December 2019 is between 1 and 11 years. The onerous lease provision was reclassified under IFRS 16 Leases whereby a lease liability has been created.

Provisions

Other provisions relates to the provision associated with route to market structures in both domestic and international markets.

18. Equity

	December 2019 £000	December 2018 £000
Authorised		
205,917,000 ordinary shares of £1 each	205,917	205,917
Allotted, called up and fully paid share capital		
178,973,000 ordinary shares of £1 each	178,973	178,973
Retained earnings	390,715	349,961
Total equity	569,688	528,934

On 10th December 2019 the directors proposed to pay an interim dividend of £5,289,000. This was paid on 4th February 2020.

NOTES TO THE FINANCIAL STATEMENTS for the 12 months ended 31 December 2019

19. Retirement benefit obligations

The latest formal valuation of the Scheme has been updated to 31 December 2019 by a qualified independent actuary.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 2019	December 2018
	%	%
Rate of increase in pensionable salaries	2.2	2.4
Rate of increase in pensions in payment (RPI subject to maximum of 5% p.a.)	3.1	3.3
Rate of increase in pensions in payment (RPI subject to maximum of 5% and minimum of 3% p.a.)	3.7	3.8
Discount rate applied to scheme liabilities	2.2	3.0
Inflation assumption	3.2	3.4

Assumptions regarding future mortality are set based on actuarial advice in accordance with S3 series base tables adjusted by 103%/105% with an allowance for future improvements based on Continuous Mortality Investigation 'CMI' 2018 projections with a 6.5 smoothing parameter and a long term improvement rate of 1% p.a. Future improvements applied are based on each individual's birth year. These assumptions translate into the following average life expectancies.

	December 2019	December 2018
	Years	Years
Average future life expectancy for a current pensioner aged 65 in 2019		
- Male	21.2	20.2
- Female	23.4	22.2
Average future life expectancy (in retirement) for a non-pensioner aged 45 in 2019		
- Male	22.2	21.2
- Female	24.5	23.4

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The GMP equalisation value has not been booked due to this not being material.

The amounts recognised in the income statement and other comprehensive income in respect of the defined benefit pension scheme is as follows:

	December 2019	December 2018
	£000	£000
Income statement		
Finance income		
Interest income on scheme assets	5,206	4,916
Finance expense		
Interest cost on defined benefit pension scheme liabilities	(5,085)	(4,839)
Amount credited to the income statement	121	77
	December 2019	December 2018
	£000	£000
Other comprehensive income		
Experience (gain) / loss on pension scheme assets	(29,222)	11,003
Experience (gain) / loss on benefit obligation	(823)	(522)
Loss / (gain) on pension scheme liabilities due to change in financial assumptions	20,373	(7,787)
Loss on pension scheme liabilities due to change in demographic assumptions	7,791	131
Actuarial (gain) / loss recognised	(1,881)	2,825
The actual return on scheme assets was	34,428	(6,087)

The cumulative amount of actuarial losses before deferred tax recognised in the statement of recognised income and expense is £24,420,000 (December 2018: £26,301,000)

The amount included in the balance sheet in respect of the defined benefit pension scheme is as follows:

	December 2019	December 2018
	£000	£000
Equities	59,800	76,833
Corporate bonds	40,721	34,948
Property	8,191	8,577
Diversified growth funds	41,039	11,408
Cash pending investment	13,924	1,594
LDI	29,460	32,248
Index linked gilts	14,152	13,269
Fair value of scheme assets	207,287	178,877
Present value of defined benefit obligation	(199,269)	(176,763)
Surplus in the scheme	8,018	2,114

NOTES TO THE FINANCIAL STATEMENTS for the 12 months ended 31 December 2019

19. Retirement benefit obligations (continued)

	December 2019 £000	December 2018 £000
Movements in the present value of the defined benefit obligation were as follows:		
Present value of defined benefit obligation at beginning of period	176,763	186,464
Interest cost	5,085	4,839
Actuarial losses / (gains) on benefit obligation	27,341	(8,178)
Benefits paid	(9,920)	(6,362)
Present value of defined benefit obligation at end of period	199,269	176,763

	December 2019 £000	December 2018 £000
Movements in the fair value of scheme assets were as follows:		
Fair value of scheme assets at beginning of period	178,877	187,424
Interest income on scheme assets	5,206	4,916
Return on assets in excess of interest income	29,222	(11,003)
Employer contributions	3,902	3,902
Benefits paid	(9,920)	(6,362)
Fair value of scheme assets at end of period	207,287	178,877

	December 2019 £000	December 2018 £000
The history of experience adjustments is as follows:		
Present value of defined benefit obligation	(199,269)	(176,763)
Fair value of scheme assets	207,287	178,877
Surplus in the scheme	8,018	2,114
Experience adjustments on scheme liabilities	27,341	(8,178)
As a percentage of the present value of the defined benefit obligation	-13.72%	4.63%
Experience adjustments on scheme assets	29,222	(11,003)
As a percentage of the fair value of plan assets	14.10%	-6.15%

It is expected that contributions by the company to the scheme during the year ending 31 December 2020 will be £3,902,000.

	December 2019 £000	December 2018 £000
The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:		
Increase of 0.25% in discount rate	8,947	7,721
Decrease of 0.25% in discount rate	(9,580)	(8,267)
Increase of 0.1% in inflation	(2,186)	(1,876)
Decrease of 0.1% in inflation	2,186	1,839
Increase of one year in life expectancy	(8,580)	(6,046)

20. Contingent liabilities

The company has no material contingent liabilities at 31 December 2019 (31 December 2018: Nil).

21. Related parties

Group

The Group's ultimate controlling party is Alliance Global Group, Inc. ("AGI"), a company incorporated in the Philippines, and the Philippine parent undertaking and controlling entity is Emperador Inc. ("EMP").

The ultimate UK parent undertaking and controlling entity is Emperador Holdings (GB) Limited. The immediate UK parent company with a controlling interest is Emperador UK Limited.

Both AGI and EMP prepare consolidated financial statements, which include the results of Emperador Holdings (GB) Ltd. The annual reports of AGI and EMP are available at the Philippines Stock Exchange website ("edge.pse.com.ph") and respective websites ("allianceglobalinc.com" and "emperadorbrandy.com").

Related party relationships exist between the company, its subsidiaries, its immediate parent company and other subsidiaries in the Emperador group.

(a) Trading transactions

During the year the Company sold products to Emperador Distillers Inc, the trading subsidiary of EMP resident in the Philippines. The value of sales during the period was £1,832,977 (2018: £1,062,727) and is based on the price lists in force and terms available to third parties. The Company also purchased management services totalling £929,728 (2018: £2,080,237) from Emperador Asia PTE Limited in respect of support provided in the Asian region. The Company sold cased products totalling £5,465 (2018: Nil) to Emperador Asia PTE Limited. The Company purchased cased products and casks totalling £8,888,378 (2018: £10,890,838) from Bodegas Fundador a trading subsidiary of Gruppo Emperador resident in Spain. The Company recharged strategic marketing costs, margin true-up costs and cased products totalling £1,817,440 (2018: £1,180,133) to Bodegas Fundador. The Company sold cased products totalling £581,946 (2018: £207,039) to Pedro Domecq S.A. DE. C.V. a trading subsidiary of Grupo Emperador resident in Spain. The Group purchases strategic marketing costs totalling £36,311 (2018: £11,089) from Pedro Domecq S.A. de C.V.

NOTES TO THE FINANCIAL STATEMENTS for the 12 months ended 31 December 2019

21. Related parties (continued)

(b) Balances arising from sale and purchase of goods and services

	December 2019 £000	December 2018 £000
Emperador Distillers Inc	667	233
Emperador Asia PTE Limited	13	7
Bodegas Fundador	564	331
Pedro Domecq S.A. DE C.V	366	39
Receivables from related parties:	1,610	610
Emperador Asia PTE Limited	922	1,475
Bodegas Fundador	105	3,410
Payables to related parties:	1,027	4,885

All year-end trading and loan balances with related parties are disclosed in notes 12 and 15.

(c) Loans to related parties

	December 2019 £000	December 2018 £000
Balance at end of period	241,440	230,442

(c) Key management compensation

The compensation paid or payable to key management for employee services is shown below:

	December 2019 £000	December 2018 £000
Salaries and other short-term employee benefits	1,977	2,144
Post-employment benefits	14	104
Other long-term benefits	570	590
	2,561	2,838

22. Subsequent events

On January 30, 2020, the World Health Organization declared the outbreak of coronavirus ("COVID-19") to be a public health emergency of international concern. This coronavirus pandemic has severely restricted the level of economic activity around the world. In response to this coronavirus pandemic, the governments of many countries, states, cities and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. In response to this the company temporarily closed its distilleries, bottling plant and implemented business continuity plans for staff to work from home. The operating sites have now re-started with strict social distancing measures in place, while those able to work from home are continuing to do so. The company has assessed the coronavirus pandemic as a non-adjusting post balance sheet event. The company has undertaken a detailed review of the potential impacts of COVID-19 and continues to monitor developments closely. As at the date of this report the most likely impact for the company is expected to be downside in travel retail and reduced sales into the on-trade partially offset by increased sales in the off-trade channels. The production side of the business is now operating at normal capacity and is well placed to service orders as lockdown restrictions are eased and economies open back up. The impact of COVID-19 has also been assessed with respect to the company's intangible assets and it is considered highly unlikely to trigger an impairment. Further consideration in respect of the assessment of COVID-19 impact and how this has been considered in respect of forming a conclusion in respect of the going concern assumption for the company is set out in note 1 on page 12.

23. Subsidiaries

The company's principal subsidiary companies are as follows:

Company	Country of incorporation	Description of shares held	% of issued share capital held	Trade
Whyte and Mackay (Americas) Limited, LLC *	USA	Ordinary	100%	Marketing services

* wholly owned subsidiary of Whyte & Mackay Limited