Registered number: 01994340



# QUALITY SPIRITS INTERNATIONAL LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2018

QUALITY SPIRITS INTERNATIONAL LIMITED

CONTENTS

# STRATEGIC REPORT
# FOR THE YEAR ENDED 31 DECEMBER 2018

## INTRODUCTION

The Directors present their Strategic Report for the year ended 31 December 2018.

## REVIEW OF THE BUSINESS AND FINANCIAL KEY PERFORMANCE INDICATORS

The principal activity of the Company continued to be that of a distributor for its ultimate parent undertaking, William Grant & Sons Holdings Limited, selling blended Scotch whisky and other alcoholic beverages.

The Company profit for the year after taxation amounted to £7,246,000 (2017 - £6,704,000). Reported turnover increased by 5.5% from £44,085,000 to £46,502,000. The Company's balance sheet position at 31 December 2018 showed net assets of £119,370,000 (2017 - £112,124,000) benefiting from improved working capital and an improved net cash position of £118,968,000, an increase of £81,170,000 from the prior year.

### Trading Environment

2018 remained a very challenging year for the Quality Spirits International ('QSI') business. The Company continued to trade amidst a highly competitive landscape, specifically on three year old blend. An ongoing industry surplus of liquid continued to drive deflationary pricing aspirations from customers, whilst discounted brands often threatened Private Label price points. Emerging market performance was often dictated by either political/economic factors or aggressive strategic pricing from competitors.

### Outlook

The World Bank predicts that the outlook for the global economy has softened. Global financing conditions have tightened, industrial production has moderated, trade tensions remain elevated, and some large emerging markets and developing economies have experienced significant financial market stress. Faced with these headwinds, the recovery in emerging market developing economies has lost momentum. Downside risks have become more acute and include the possibility of disorderly financial market movements and an escalation of trade disputes. Debt vulnerabilities in emerging market and developing economies, particularly low-income countries, have increased. More frequent severe weather events would raise the possibility of large swings in international food prices, which could deepen poverty. In this difficult environment, it is of paramount importance for emerging market and developing economies to rebuild policy buffers while laying a stronger foundation for future growth by boosting human capital, promoting trade integration, and addressing the challenges associated with informality.

Currently, the UK is expected to leave the European Union on or before 31 October 2019. This will either be under a Withdrawal Agreement or without such an agreement. The environment of uncertainty around the future relationship is high and there is increasing concern that no deal will be agreed. This has been described as "extremely detrimental" to European spirit producers (Spirits Europe), notwithstanding the likely negative impacts to the UK economy. The Company is reviewing options around its response to a range of potential scenarios, including preparation for a stock build in key European markets.

In addition to the economic and market context the geopolitical context remains volatile. With unilateral stances becoming more popular in some major economies, the risk to trade has become greater. Scotch whisky is a robust and successful industry, but it does face increasing competition from other authentic spirit categories leading to the 400+ trade barriers faced currently. Against this backdrop we want our governments to create a climate where the economic development and growth is actively encouraged and rewarded.

Despite the geopolitical uncertainty that charaterises our times, we are confident about the medium and long term prospects for the business and will continue to invest in our people, brands and business model.

Notwithstanding this broad outlook, the drinks industry remains an interesting market with good opportunities. Over the medium term, the industry is expected to grow overall in terms of volume and value driven by consumer fundamentals, including a rise in global incomes and a growing legal age population. In this context, the essentials for future growth remain on a par with 2018. The environment remains challenging but, overall, the outlook for the Company's brands remains positive.

## PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties set out below are those which the Directors believe to have the greatest potential to impact the Company's ability to achieve its strategic objectives, or which have the greatest potential impact on the Company's solvency or liquidity.

**Market Competition**
The Company is part of the alcoholic beverage segment, where there is a high level of competition and a large number of operators. Its main competitors are large international groups involved in the current wave of mergers and acquisitions, which are operating aggressive strategies at a global level. The Company's competitive position relative to the other global players, which often have greater financial resources and benefit from a more highly diversified portfolio of brands and geographic locations, means that its exposure to market competition risk is particularly significant.

**Geopolitical and Economic Change**
Economic or political instability could restrict market activity, affecting market access, demand or the cost of doing business. Political and economic volatility, and the Company's uncertainty or failure to react sufficiently quickly to mitigate any impact, continue to present a significant risk to both trade and profitability. The Company's broad product portfolio and diverse geographic spread reduce the exposure to individual market risks, although Brexit presents a significant potential trading risk depending on the outcome of exit negotions.

**International Trade and Operations in Emerging Markets**
In line with its international growth objective, the Company currently operates in numerous markets, and plans to expand in certain emerging countries, in particular in Eastern Europe, Asia and Africa. Operating in emerging markets means that the Company is vulnerable to various risks inherent in international business, including exposure to an often unstable local political and economic environment, exchange rate fluctuations, export and import quotas, limits or curbs on investment and advertising, and limitations on the repatriation of dividends.

**Adverse Political and Social Attitudes to Alcohol Promotion and Consumption**
Adverse political and social attitudes to alcohol could damage the Company and its brands, as well as impact market access and the ability to promote those brands. The Company supports a responsible approach to alcohol, and considers the failure to address the concerns of multiple stakeholders on the promotion and consumption of alcohol as a risk to consistent value creation, credibility, trust and therefore overall brand equity. The management of this risk is a core element of Company strategy to grow a sustainable, long term business. The Company operates a number of policies including a Code of Conduct and a global Marketing Code, reinforced by a global online training programme. The Company, and other group companies, are members of national and international organisations that work to encourage the responsible promotion and consumption of alcohol and reduce alcohol-related harms.

**Regulatory Compliance**
Failure to comply with local laws and regulations could result in regulatory sanctions, reputational damage and/or financial loss. Activities relating to the alcoholic drinks industry (including production, distribution, export, import, sales and marketing) are governed by complex national and international legislation, often drafted with somewhat restrictive aims. The requirement to make the legislation governing the health of consumers, particularly young people, ever more stringent could in the future lead to the adoption of new laws and regulations aimed at discouraging or reducing the consumption of alcoholic drinks. Such measures could include restrictions on advertising or tax increases for certain product categories. Non compliance with local laws or regulations, or breach of our internal global policies and standards and/or significant internal control breakdown could cause severe damage to our corporate reputation, brand perception and liquidity. Any tightening of regulations in the main countries in which the Company operates could lead to a fall in demand for its products.

## PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

### Regulatory Compliance (continued)

The Company has risk management processes in place to ensure that employees are aware of their responsibilities and the applicable regulatory requirements. Formal training sessions are undertaken throughout the year. The Company proactively reviews, with external legal counsel, its principal regulatory compliance obligations and controls including, but not limited to, competition laws, liquor laws, environmental laws, compliance with EU and UN trade and political sanctions, and local statutory laws (e.g. health & safety). The Company has further improved its processes and controls to ensure, to every extent possible, that any perceived risks are mitigated. These activities are underpinned by a Code of Conduct, a Global-Anti Corruption Policy, and a Speak-Up Policy which apply to all its employees, agents, distributors, contractors and suppliers. Induction procedures include evidenced completion of an on-line training module and assessment which covers the Code and its supporting policies. The course is also periodically refreshed and forms part of a rotational programme of training at all locations.

In addition, the Company continues to take its social responsibilities very seriously by going beyond meeting its legal obligations where the Company Values require this. Similarly, additional initiatives are also taken in relevant areas where legal requirements do not apply.

### Consumer Preference

A change in consumer preferences for one or more of the Company's brands in one or more key markets could result in a reduced share of market. The Board closely monitors financial and operational key performance indicators which include a review of brand performance and equity strength across market segments and geographies. An annual review takes place of both brands and markets and the Board has recognised the differing contribution and strengths of each of its principal brands globally and regionally, and has focused management across its portfolio.

### IT Risks

IT risks consist of data loss (both commercial and financial), the inability to operate effectively due to a technical fault, and system intrusion or hacking. The Company's operations are predicated on the extensive use of IT systems, and so they are exposed to the risk of failure of those systems and the network infrastructure used. The processes concerned could be significantly interrupted or sensitive data could be lost or corrupted if these systems were to become totally or partially unavailable. To guard against these risks, a data protection and backup plan and a business continuity plan have been implemented, allowing the Company to manage and mitigate the risk across a range of circumstances. In addition the Company uses available technologies to protect its network and servers.

### Cyber

Theft, failure or corruption of digital asssets and/or key systems could have an adverse impact on business and profits. The Group, of which the Company is a member, has a dedicated Information Security Leader and has implemented a broad information security programme, including software upgrades and a robust vulnerability patching programme. Further improvements are scheduled for 2019, including security monitoring, information security awareness and training, and enhancing the security configuration of some of the Company's key information assets.

### Financial Risks

Exposure to market risk (including medium term movements in exchange rates and commodity prices), credit risk and liquidity risk, may adversely impact the profit and cash generation of the Company. The management of certain financial risks is delegated by the Board to the Treasury Committee at a Group level. The principal financial risks faced by the Company are those relating to liquidity, foreign currency and credit risk. The Company's treasury policies and procedures, which are reviewed and updated on a regular basis, seek to reduce these financial risks.

With regard to funding and liquidity, the Company's objective is to manage cash flows in all currencies in an efficient and flexible manner. At the balance sheet date, the Company had no external debt funding and net cash balances of £118,968,000 (2017 - £37,798,000).

## PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

**Financial risks (continued)**
The Company's credit risk is primarily attributable to its trade receivables with risk spread over a large number of countries and customers. There is no significant concentration of credit risk. Credit worthiness checks are undertaken before entering into contracts with new customers, and credit limits are set as appropriate. The Company also uses trade finance instruments such as letters of credit to mitigate specific identified risks. The Company's exposure to the credit risk of financial institutions is limited by only trading with counterparties who have a strong credit standing based on ratings provided by the major credit rating agencies.

The Company is exposed to movements in exchange rates for transactions undertaken in foreign currencies, and the translation of foreign currency denominated net assets and profit and loss items. No speculative transactions are undertaken. The Company's policy is not to hedge foreign currency net assets or profit and loss items.

This report was approved by the Board on 29 AUGUST 2019 and signed on its behalf.

A J Davies
Director

## DIRECTORS' REPORT
## FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors present their report and the financial statements for the year ended 31 December 2018.

### DIRECTORS

The Directors who served during the year, and to the date of this report, were:

J M Harvey
M Lamont
L M Campbell (resigned 30 April 2018)
A J Davies
V E Jerez (resigned 1 August 2018)
E J Henderson (appointed 11 December 2018)
H G Cowing (appointed 13 May 2019)
G Horsfield (appointed 1 June 2019)
G T Simpson (appointed 1 June 2019)
J A Sommerville (appointed 1 June 2019)

### DIVIDENDS

The Directors do not recommend a final dividend for 2018 (2017 - £nil). During the year, no interim dividends were paid (2017 - £nil).

The Company has paid an interim dividend of £85,000,000 between the year end date and the date these financial statements were signed, relating to the year ended 31 December 2019.

### FUTURE DEVELOPMENTS

The Company will continue to develop its geographic distribution with a clear focus on blended Scotch whisky.

Equally the Company will seek out new European opportunities to build volume and consolidate its position as the leading international supplier of Private Label Scotch whisky.

### FINANCIAL INSTRUMENTS

Details of financial instruments are provided in the Strategic Report and in note 12 to the financial statements.

### ANTI BRIBERY AND CORRUPTION

The Company operates an Anti Bribery and Corruption programme. The purpose is to ensure that the Company, and all third parties providing services to it, operate in compliance with both company policy and the relevant legislation. It is important that the Company sets the highest standards of integrity, probity and prudence and insists that all employees are fully compliant with this programme.

### GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments, and its exposures to price, credit, liquidity and cash flow risk are described in the Strategic Report.

The Company has sufficient financial resources and as a consequence of this the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

**DIRECTORS' REPORT (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2018**

## EMPLOYEE INVOLVEMENT

As a key part of the Company's philosophy, great importance continues to be placed on involving all staff in the Company's operations.

The Company continues to keep staff informed and involved in the progress of the Company through a wide variety of mechanisms, including the Company Annual Review, Local Reviews and Team Briefs.

## DISABLED EMPLOYEES

The Company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position, and to provide appropriate training to achieve this aim.

## QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The Company has granted an indemnity to one or more of its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

## DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## AUDITORS

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the Board on 29 AUGUST 2019 and signed on its behalf.

A J Davies
Director

## DIRECTORS' RESPONSIBILITIES STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors are responsible for preparing the Strategic Report, the 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to 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.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QUALITY SPIRITS INTERNATIONAL LIMITED

### OPINION

We have audited the financial statements of Quality Spirits International Limited (the 'Company') for the year ended 31 December 2018, which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 Auditors' 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 United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### CONCLUSIONS RELATING TO GOING CONCERN

We 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.

### 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 Auditors' 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.

## OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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.

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

As explained more fully in the Directors' Responsibilities Statement on page 7, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QUALITY SPIRITS INTERNATIONAL LIMITED (CONTINUED)**

## 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 Auditors' 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.

Ernst & Young LLP

Mark Harvey (Senior Statutory Auditor)

for and on behalf of
**Ernst & Young LLP**

5 George Square
Glasgow
G2 1DY
Date: 29 August 2019

## PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 31 DECEMBER 2018

| | Note | 2018<br>£000 | 2017<br>£000 |
|---|---|---|---|
| Turnover | 3 | 46,502 | 44,085 |
| Cost of sales | | (35,279) | (33,580) |
| **Gross profit** | | 11,223 | 10,505 |
| Distribution costs | | (1,315) | (1,224) |
| Administrative expenses | | (1,952) | (1,898) |
| **Operating profit** | 4 | 7,956 | 7,383 |
| Taxation on profit on ordinary activities | 7 | (710) | (679) |
| **Profit for the year** | | 7,246 | 6,704 |

## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2018

| | 2018<br>£000 | 2017<br>£000 |
|---|---|---|
| Profit for the year | 7,246 | 6,704 |
| **Total comprehensive income for the year** | 7,246 | 6,704 |

The notes on pages 14 to 22 form part of these financial statements.

**BALANCE SHEET**
**AS AT 31 DECEMBER 2018**

| | Note | | 2018 £000 | | 2017 £000 |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Stocks | 8 | 665 | | 455 | |
| Debtors: amounts falling due within one year | 9 | 15,331 | | 78,739 | |
| Cash at bank and in hand | 10 | 118,968 | | 37,798 | |
| | | 134,964 | | 116,992 | |
| Creditors: amounts falling due within one year | 11 | (15,594) | | (4,868) | |
| **Net current assets** | | | 119,370 | | 112,124 |
| **Net assets** | | | 119,370 | | 112,124 |
| **Capital and reserves** | | | | | |
| Called up share capital | 13 | | - | | - |
| Profit and loss account | 14 | | 119,370 | | 112,124 |
| | | | 119,370 | | 112,124 |

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on
29 AUGUST 2019.

A J Davies
Director

The notes on pages 14 to 22 form part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2018

| | Called up share capital | Profit and loss account | Total equity |
|---|---|---|---|
| | £000 | £000 | £000 |
| At 1 January 2018 | - | 112,124 | 112,124 |
| Profit for the year | - | 7,246 | 7,246 |
| **At 31 December 2018** | - | 119,370 | 119,370 |

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2017

| | Called up share capital | Profit and loss account | Total equity |
|---|---|---|---|
| | £000 | £000 | £000 |
| At 1 January 2017 | - | 105,420 | 105,420 |
| Profit for the year | - | 6,704 | 6,704 |
| **At 31 December 2017** | - | 112,124 | 112,124 |

The notes on pages 14 to 22 form part of these financial statements.

## 1. ACCOUNTING POLICIES

### 1.1 STATEMENT OF COMPLIANCE

Quality Spirits International Limited is a limited liability company incorporated in England, with its registered office at Independence House, 84 Lower Mortlake Road, Richmond, Surrey, TW9 2HS.

The Company's financial statements have been prepared in accordance with Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland', as it applies to the financial statements of the Company for the year ended 31 December 2018, and the Companies Act 2006.

### 1.2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared in sterling, which is the functional and presentational currency of the Company, rounded to the nearest thousand (£000).

### 1.3 FINANCIAL REPORTING STANDARD 102 - REDUCED DISCLOSURE EXEMPTIONS

In accordance with FRS 102, the Company has taken advantage of the exemptions from the following disclosure requirements:

- Section 7 Statement of Cash Flows;
- Section 3 Financial Statement Presentation paragraph 3.17(d);
- Section 11 Financial Instruments paragraphs 11.42 to 11.48A;
- Section 12 Other Financial Instruments paragraphs 12.26 to 12.29; and
- Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of William Grant & Sons Holdings Limited for the year ended 31 December 2018, available from the address in note 17.

### 1.4 TURNOVER

Turnover is measured as the fair value of the consideration received or receivable and represents the amount receivable for goods supplied, net of returns, discounts, rebates, value added tax and other sales related taxes.

The Company recognises turnover when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the Company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity; and (e) when the specific criteria relating to the Company's sales channels have been met, as described below.

**Sale of goods**
Turnover from the sale of goods includes import and other duties which the Company pays as principal but excludes amounts collected on behalf of third parties, such as value added tax. In the majority of countries, import duties are effectively a production tax which becomes payable when the product is removed from bonded premises and is not directly related to the value of sales. It is generally not included as a separate item on external invoices; increases in import duty are not always passed on to the customer and where a customer fails to pay for a product received, the Company cannot reclaim the import duty. The Company therefore recognises import duty as a cost.

Sales are recognised depending upon individual customer terms at the time of despatch, delivery or when the risk of loss transfers. Provision is made for returns where appropriate.

## 1. ACCOUNTING POLICIES (CONTINUED)

### 1.5 STOCKS

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Finished goods - Cost of direct materials, labour and attributable overheads based on a normal level of activity

Net realisable value is based on the estimated selling price (in the normal course of business) less any further costs expected to be incurred to completion and sale.

At each balance sheet date, stocks are assessed for indicators of impairment. If an item of stock is considered to be impaired, the carrying amount is reduced to its estimated selling price less costs to complete and sell, and an impairment charge is recognised immediately in profit or loss.

### 1.6 SHORT TERM DEBTORS AND CREDITORS

Debtors and creditors with no stated interest rate and which are receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the profit and loss account in administrative expenses.

### 1.7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand, and short term deposits with an original maturity date of three months or less.

### 1.8 FINANCIAL INSTRUMENTS

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors, creditors and loans to related parties.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the profit and loss account.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the balance sheet date.

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the Company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Financial liabilities are derecognised when, and only when, the Company's contractual obligations are discharged, cancelled, or they expire.

### 1.9 OPERATING LEASES

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term. Lease incentives are also recognised over the lease term on a straight line basis.

## 1. ACCOUNTING POLICIES (CONTINUED)

### 1.10 FOREIGN CURRENCIES

Transactions in foreign currency are initially recorded in the Company's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

### 1.11 EMPLOYEE BENEFITS

The Company provides a range of benefits to employees, including annual bonus and paid holiday arrangements, defined benefit and defined contribution pension plans, and long term incentive plans.

**Short term benefits**
Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is rendered.

**Defined contribution plan**
The Company participates in a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid, the Company has no further payment obligations. The contributions are recognised as an expense in the profit and loss account when they are due. Amounts not paid are shown as accruals in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

**Defined benefit pension plan**
The Company participates in a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

Where the risks of a defined benefit plan are shared by entities under common control, the net defined benefit cost is recognised in the financial statements of the group entity which is legally responsible for the plan and all other group entities recognise a cost equal to their contributions payable for that period. Disclosures in relation to the Group pension plan are included within the financial statements of the legally responsible entity, William Grant & Sons Limited.

**Annual bonus plan**
The Company operates a number of annual bonus plans for employees. An expense is recognised in the profit and loss account when the Company has a legal or constructive obligation to make payments under the plans as a result of past events, and a reliable estimate of the obligation can be made.

**Long Term Incentive Plans**
The Company operates cash-settled long term incentive plans for certain members of management. The plans are based on business performance over a three year period against a number of target measures. Over the term of the plan, a liability is recognised representing the product of the fair value of the award and the portion of the plan period expired as at the balance sheet date. From the end of the plan period until payment date, the liability represents the full fair value of the award as at the balance sheet date. Changes in the carrying amount of the liability are recognised in profit or loss for the period.

## 1. ACCOUNTING POLICIES (CONTINUED)

### 1.12 TAXATION

The tax expense for the period comprises current tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised as other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income or directly in equity respectively.

**Current tax**
Current tax is the amount of income tax payable in respect of the taxable profit for the period or prior periods. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

## 2. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date, and the amounts reported for revenues and expenses during the period then ended. However, the nature of estimation means that actual outcomes could differ from those estimates. The Directors are of the opinion that there are no judgements or sources of estimation uncertainty that have had a significant effect on amounts recognised in the financial statements.

## 3. TURNOVER

All of the Company's turnover is attributable to the provision of goods which fall within its ordinary activities, stated net of sales related taxes for example Value Added Tax, and other taxes or duties collected on behalf of third parties.

An analysis of turnover by class of business and geographical origin has not been disclosed. The Directors are of the opinion that to disclose such information would be seriously prejudicial to the interests of the Company.

All turnover relates to continuing operations.

## 4. OPERATING PROFIT

The operating profit is stated after (crediting)/charging:

| | 2018<br>£000 | 2017<br>£000 |
|---|---|---|
| Exchange (gains)/losses | (102) | 41 |
| Operating lease payments | 15 | 13 |
| Defined contribution pension cost | 50 | 34 |

## 5. AUDITORS' REMUNERATION

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Fees payable to the Company's auditor for the audit of the Company's annual financial statements | 17 | 16 |

All audit fees have been met by another group company, in the current and prior periods.

## 6. EMPLOYEES

Staff costs, including Directors' remuneration, were as follows:

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Wages and salaries | 974 | 929 |
| Social security costs | 121 | 114 |
| Defined contribution pension cost | 50 | 34 |
| | 1,145 | 1,077 |

The average monthly number of employees, including the Directors, during the year was as follows:

| | 2018 No. | 2017 No. |
|---|---|---|
| Administration | 9 | 8 |
| Selling | 5 | 4 |
| | 14 | 12 |

**Directors' emoluments**

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Total remuneration | 387 | 265 |
| Company pension contributions to defined contribution schemes | 8 | 5 |
| Remuneration of highest paid director | 288 | 208 |

The number of Directors to whom retirement benefits are accruing in respect of qualifying services under defined benefit schemes is 1 (2017 - 1). The highest paid Director is a member of a defined benefit scheme.

The number of Directors who were members of a defined contribution scheme during the year was 1 (2017 - 2).

A number of Directors are paid through another group company and are not included within the profit and loss account.

## 7. TAXATION

| | 2018 £000 | 2017 £000 |
|---|---|---|
| **Corporation tax** | | |
| Current tax on profit for the year | 709 | 677 |
| Adjustments in respect of previous periods | 1 | 2 |
| **Total current tax** | 710 | 679 |

**Factors affecting tax charge for the year**

The tax assessed for the year is lower than (2017 - lower than) the standard rate of corporation tax in the UK of 19% (2017 - 19.25%). The differences are explained below:

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Profit on ordinary activities before tax | 7,956 | 7,383 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 19.25%) | 1,512 | 1,421 |
| **Effects of:** | | |
| Expenses not deductible for tax purposes | 3 | 1 |
| Adjustments to tax charge in respect of prior periods | 1 | 2 |
| Other timing differences leading to a decrease in the tax charge | (1) | (3) |
| Transfer pricing adjustments | (805) | (742) |
| **Total tax charge for the year** | 710 | 679 |

**Factors that may affect future tax charges**

The Chancellor announced that the main UK rate of corporation tax will be reduced from the current rate of 19% which has applied from 1 April 2017, to 17% via a 2% reduction on 1 April 2020. The reduction in the corporation tax rates to 17% was included within the Finance Act that was substantively enacted on 6 September 2016.

## 8. STOCKS

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Finished goods and goods for resale | 665 | 455 |

The value of inventory recognised as an expense in the year was £34,894,000 (2017 - £32,730,000).

## 9. DEBTORS

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Trade debtors | 15,320 | 16,436 |
| Amounts owed by group undertakings | 3 | 62,295 |
| Prepayments and accrued income | 8 | 8 |
| | 15,331 | 78,739 |

## 10. CASH AND CASH EQUIVALENTS

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Cash at bank and in hand | 118,968 | 37,798 |

## 11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Trade creditors | 160 | 114 |
| Amounts owed to group undertakings | 12,612 | 1,987 |
| Corporation tax | 2,105 | 2,072 |
| Other taxation and social security | 31 | 27 |
| Accruals and deferred income | 686 | 668 |
| | 15,594 | 4,868 |

## 12. FINANCIAL INSTRUMENTS

| | 2018 £000 | 2017 £000 |
|---|---|---|
| **Financial assets** | | |
| Debt instruments measured at amortised cost | 15,323 | 78,731 |
| **Financial liabilities** | | |
| Measured at amortised cost | (13,458) | (2,769) |

Financial assets that are debt instruments measured at amortised cost comprise trade debtors and amounts owed by group undertakings (note 9).

Financial liabilities measured at amortised cost comprise trade creditors, amounts owed to group undertakings and accruals (note 11).

## 13. SHARE CAPITAL

| | 2018 £ | 2017 £ |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 100 ordinary shares of £1 each | 100 | 100 |

## 14. RESERVES

**Profit and loss account**

The profit and loss account represents cumulative gains and losses recognised in the profit and loss account and dividends paid.

## 15. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Within 1 year | 9 | 12 |
| After 1 year but within 5 years | 11 | 2 |
| | 20 | 14 |

## 16. RELATED PARTY TRANSACTIONS

Related party transactions with companies that are wholly owned by the Group have not been disclosed in accordance with the provisions of FRS 102, Section 33.

## 17. CONTROLLING PARTY

The Company's immediate parent undertaking is William Grant & Sons Enterprises Limited. William Grant & Sons Holdings Limited is the ultimate parent undertaking. The group of companies, of which William Grant & Sons Holdings Limited is the ultimate parent undertaking, is the largest group in which the Company is a member. Consequently the Company is included in its group financial statements. The address from which copies of these group financial statements are available to the public is: The Registrar of Companies, Companies House, Fourth Floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 9FF.