REGISTERED NUMBER: SC344777 (Scotland)

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Genius Foods Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2019

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Genius Foods Limited

Contents of the Annual Report and Consolidated Financial Statements for the Year Ended 31 December 2019

Genius Foods Limited

Company Information
for the Year Ended 31 December 2019

DIRECTORS:	B D L Black J P Bradley L E K Bruce-Gardyne J M Dunsmore E Melloul E D Murray Dr P Quinn
SECRETARY:	Addleshaw Goddard (Scotland) Secretarial Limited
REGISTERED OFFICE:	22 Northumberland Street South West Lane Edinburgh EH3 6JD
REGISTERED NUMBER:	SC344777 (Scotland)
AUDITOR:	Deloitte LLP Saltire Court 20 Castle Terrace Edinburgh United Kingdom EH1 2DB
BANKER:	Barclays Plc Aurora 5th Floor, 120 Bothwell Street Glasgow G2 7JT
SOLICITOR:	Addleshaw Goddard LLP Exchange Tower 19 Canning Street Edinburgh EH3 8EH

Genius Foods Limited

Group Strategic Report
for the Year Ended 31 December 2019

The directors present their Strategic Report for the year ended 31 December 2019. The directors, in preparing this Strategic Report, have complied with s414C of the Companies Act 2006. The comparative period was for the year ended 31 December 2018.

This Strategic Report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Genius Foods Limited (the Company) and its subsidiary undertakings (together defined as the Group) when viewed as a whole.

BUSINESS REVIEW
Genius Foods Limited and its subsidiaries produce, market, distribute and sell Gluten Free Digestive Wellness bakery products.

Covid-19 pandemic and its economic impact
The circumstances resulting from Covid-19 pandemic are creating an unprecedented level of uncertainty in the UK and beyond. The Board has been closely following guidance issued by governments in territories where the Group operates and the different levels of restrictions implemented by them since the outset of the outbreak and will continue to do so.

In response the Board is taking actions across 4 priority areas: protecting and maximising existing revenues; preserving production and supply chain, with special focus on employees; key customer and supplier agreements; and potential impacts on its liquidity and financial resources.

The primary focus is on the safety and wellbeing of our employees, suppliers and customers. The Board have taken steps to protect our colleagues who are considered most vulnerable across the organisation. For our colleagues who work in key roles in bakery operations, strict health and safety, hygiene and social distancing measures have been introduced. In addition, those employees whose roles permit them to do so, have been working from home since the middle of March 2020. All of our bakery operations have remained fully operational throughout the pandemic and the Board are extremely grateful to our dedicated employees who have been exemplar Geniuses throughout this time, as well as to our commercial and supply chain partners in both the UK and Internationally.

It is the Boards view, that as a business producing essential bakery goods, the Group is less exposed to the immediate economic and operational impacts of the Covid-19 pandemic so cash and earnings generation is expected to remain stable and in line with budget. Further detailed information is given in the Principal Risks and Uncertainties section of this report, the post balance sheet events note on page 63 and in the going concern section of note 2.

Review of the business and principal activities
The business performance continues to improve with the return to strong revenue growth and the completion of the three year restructuring programme.

In an increasingly competitive UK Retail landscape, the brand continues to maintain its market share leadership position. Total UK revenue grew by 17% compared to last year. The allocation of resources to high growth Anglophone markets increased revenue by 26% in USA and Australia in 2019. Genius continues to focus on driving fewer higher potential lines in large international markets and channels and this strategy delivered double digit revenue growth on average over the six consecutive quarters to the end of 2019.

The program to simplify and focus operations is now complete, resulting in a fifth consecutive year of underlying Gross Margin improvement. Positive momentum on key operational indicators accelerated in the second half of the year; a trend which continues into 2020.

The business made further investments in restructuring (including European direct selling operations), strengthening organisational capability, brand marketing and Research & Development in support of its long-term valuation strategy. With the support of Scottish Enterprise, Genius is developing new proprietary technology enabling the business to scale its unique Gluten Free bakery processes globally together with a new Digestive Wellness product range. The valuation strategy is progressing well. The improving business performance and ongoing support of both Verlinvest and other shareholders, provide sufficient funds to execute future plans whilst navigate risks and opportunities arising from current market conditions.

BUSINESS REVIEW - continued

Review of the business and principal activities - continued

In 2019, Operating Loss before depreciation and share based payments improved by 58% to £1.3m (2018: £3.0m). The full year Loss after tax of £4.7m (2018 loss: £6.7m) arose in 2019 as a result of continued investment to deliver operating efficiencies, repositioning the Genius brand to sustain international growth and accelerate innovation. Investment in bakery equipment continued in 2019 at £0.5m (2018: £0.9m) to facilitate innovation and increase efficiency in manufacturing capability.

GOING CONCERN

The Board and Executive have prepared a thorough Covid-19 analysis as described in the Directors Report and have been regularly holding special sessions to discuss and resolve any issues arising from the Covid-19 pandemic. The Board also discusses all other risks to the delivery of the annual business plan on a quarterly basis and considering its expectations, along with the Group's forecasts and projections, the Group and Company expect to be able to operate within the level of its current facilities for a minimum period of twelve months from the date of signing these financial statements.

The Group meets its day to day working capital requirements through trading cashflows and has access to an Invoice Finance Facility as well as Equipment Finance Facilities. In March 2019 Genius entered into a new £7m Confidential Invoice Discounting Facility with BNP Paribas, superseding the HSBC facility which matured in April 2019. The £7m Confidential Invoice Discounting facility operates on a rolling contract basis and with confirmation from BNP Paribas, the Directors are confident that the facility will be ongoing.

In April 2020, in response to the Covid-19 pandemic, the Group increased the liquidity pool by £1.5m cash via a pre-existing preference share instrument with Verlinvest; demonstrating our majority shareholder's ongoing confidence in the potential of the business even in uncertain times.

After due consideration, the Directors believe the Group and Company have adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis are described in note 2 of the financial statements.

KEY PERFORMANCE INDICATORS

Given the strong growth plans of the business, the key areas of focus are turnover, share by market and Gross Margin improvement. Operational and Commercial KPIs (e.g. line efficiency, quality and category weighted distribution) are used to drive performance.

PRINICPAL RISKS AND UNCERTAINTIES AND FINANCIAL RISK MANAGEMENT

The Group operates in an environment which is continually changing and as a result the risks it faces will also change over time.

The Group's activities expose it to a number of risks including Covid-19, market risk, liquidity risk, credit risk and cash flow risk:

Covid-19 pandemic

The Covid-19 outbreak began in early 2020 when the World Health Organisation declared the emerging situation a global pandemic. Governments in the territories where the Group has activities have been taking stringent steps to contain or delay the spread of the virus. The Board has been closely monitoring and assessing the current and potential future effects that the Covid-19 pandemic may have on the Group's operation and profitability. In the main, the Board sees the risks arising in four main areas: protecting and maximising existing revenue streams, preserving production and supply chain, key customer and supplier agreements and potential impacts on liquidity and financial resources.

Market risk

This will be managed by continuing our first to market strategy successfully deployed in the UK. In addition, the Group continues to invest significant resources in research and development and delivering a pipeline of innovative new products. The Board is continuing to monitor risks to the Group associated with the decision of the UK to leave the European Union. A comprehensive support plan is in place for our non UK national employees. Operational mitigations to address short term import and export supply risks are underway. Whilst the longer term commercial impact of changes to tariffs is not yet confirmed, with less than 10% of Sales in Europe, this risk will be managed as further information becomes available.

PRINICPAL RISKS AND UNCERTAINTIES AND FINANCIAL RISK MANAGEMENT - continued

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group uses a mixture of long-term and short-term debt finance. Genius Foods Limited has in place with BNP Paribas a £7m Confidential Invoice Discounting Facility superseding the HSBC Invoice Finance Facility which matured in April 2019. In addition, Equipment Finance Facilities with HSBC Plc and Paragon Bank Plc fund the bakery investment programme. The structure of this financing package ensures the Group maintains liquidity for ongoing operations and future developments.

Credit risk

The Group and Company's principal financial assets are bank balances, cash and trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The credit risk on liquid funds is limited because the counterparties are banks with credit-ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Cash flow risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates on raw material purchases and interest rates. Foreign exchange is managed through internal strategies such as currency matching of payables to receivables and regular review of risks and risk mitigation. Interest rate fluctuations impact on the financing costs to the Group are monitored and reviewed on a regular basis. Derivatives are not used to manage cash flow risk.

FUTURE DEVELOPMENTS

Genius looks forward to 2020 and 2021 with the emphasis on building out its leading position in the UK Retail market, opening new, high potential sales channels and developing further high growth international markets. The Group continues to focus on driving sales revenues whilst at the same time continuing with its program to strengthen Gross Margins and reduce operating costs. In common with most UK food business, management of rising input prices will remain a key area of focus. As a Brand led business operating in an essential consumer goods segment, the Group continues to be successful, improving EBITDA in the early/mid Covid-19 crisis. As such, 2020 and 2021 will see the business continue to invest behind competitive advantage through technical know-how and building the Genius Brand in the Digestive Wellness and Gluten Free categories.

Statement by the Directors in Performance of their statutory duties in accordance with s172 Companies Act 2006

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

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

a) the likely consequences of any decision in the long term;
b) the interests of the company's employees;
c) the need to foster the company's business relationships with suppliers, customers and others;
d) the impact of the company's operations on the community and the environment;
e) the desirability of the company maintaining a reputation for high standards of business conduct; and
f) the need to act fairly as between members of the company.

The Directors of the Group both individually and together consider they have acted using the above in their decisions taken during the year ended on 31 December 2019.

The following paragraphs summarised how the Directors fulfil their duties:

Statement by the Directors in Performance of their statutory duties in accordance with s172 Companies Act 2006 - continued

Mission statement
The Group's mission is to be the global brand leader in digestive wellness bakery products and provide our consumers, customers and our team with the best experience so that they choose Genius products and the Genius Group of companies.

Risk management
The Group is operating in a rapidly changing fast moving consumer goods environment, producing Gluten Free Digestive Wellness bakery products to delight customers in the UK and Internationally. The business and risk environment of the Group grows it requires the Group to identify, evaluate, manage and mitigate the risks it faces.

Employees
A part of the mission of the Group is to provide the best experience to its employees to attract and retain them by creating an honest, respectful, safe environment in which they are continuously trained, remain motivated and exceed expectations.

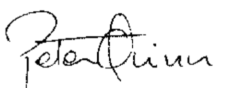
Customers
The Group's valuation strategy focuses on driving high potential lines in the UK and large international markets and channels, of brilliant products, delivered with excellent service levels to its existing as well as to newly contracted customers. In order to achieve this the Group develops and maintains strong customer relationships. The Group's customer relationships are mostly long-term and repeat; with new customer relationships evolving internationally and in new sales channels.

Suppliers
The Group follows the below principles during its supplier selection and supplier management practices. The Group targets to give a fair chance to all relevant potential vendors to become a supplier to Genius Foods Limited and its subsidiaries. It selects the suppliers in a competitive supplier selection process as it believes a fair competition drives overall performance in the value chain. It buys based on industry standard specifications with strict requirements on the application of relevant legal requirements. The suppliers are subject of pre-evaluation and approval process in order to meet the required standards of the Group in all aspects concerning what they do.

Lenders
The Group has been financing its operations with borrowings. The banks involved with the Group are informed regularly about the financial health of the Group and about major plans.

Shareholders
The Directors ensure ongoing conversation with its shareholders through quarterly reporting and events such as an annual presentation to investors, including a questions and answers session. The Directors recognise the importance of continuing, open dialogue with the shareholders. It is important to the Directors that the shareholders understand the strategy and objectives of the Group therefore these must be explained clearly, feedback heard and any issues, questions raised properly considered. This enables sustainable middle and long term value creation for the shareholders in a manner which satisfies all parties.

Approved by the board and signed on its behalf by:



Dr P Quinn - Director

Date: 2 November 2020

22 Northumberland Street
South West Lane
Edinburgh
EH3 6JD

Genius Foods Limited

Directors' Report
for the Year Ended 31 December 2019

The directors present their Annual Report on the affairs of the Group, together with the audited financial statements and Auditor's Report, for the year ended 31 December 2019.

Details of the significant events since the balance sheet date and an indication of likely future developments in the business of the Company and the Group are included in the Strategic Report, with further details provided below:

PRINCIPAL ACTIVITY

The principal activity of the Group in the year under review was that of manufacture, marketing, distribution and selling Gluten Free Digestive Wellness bakery products.

DIVIDENDS

No dividends will be distributed for the year ended 31 December 2019 (2018: £nil).

DIRECTORS

The directors, who served throughout the year except as noted, were as follows:

B D L Black	(Appointed on 1 March 2019)
J P Bradley	
L E K Bruce-Gardyne	
J M Dunsmore	
Sir W B B Gammell	(Resigned on 1 January 2020)
E Melloul	
E D Murray	
Dr P Quinn	(Appointed 1 January 2020)

DIRECTORS' INDEMNITIES

The Company maintains insurance to cover directors' and officers' liability as permitted by the Companies Act 2006. This insurance policy was renewed during the period and remains in force.

The Company has granted indemnities in favour of its directors, as is permitted by s232-235 of the Companies Act 2006.

POLITICAL CONTRIBUTIONS

The Group made no political contributions for the period ended 31st December 2019, (2018: nil).

EMPLOYEE CONSULTATION

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group and the Company. This is achieved through weekly briefing sessions, formal and informal meetings, and use of staff notices boards located at all sites. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests through an Employee Forum. The Group operates growth share schemes for key management personnel and senior managers.

DISABLED PERSONS

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group and the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Details of financial risk management objectives and policies are contained within the Strategic Report on page 2 and form part of this report by cross-reference.

RESEARCH AND DEVELOPMENT

Due to the scientific and technological complexities of producing Gluten Free Digestive Wellness products, the Group is continually investing in Research and Development projects. These include the development of new and innovative products, the optimisation of existing technology and research programmes with third party organisations.

Research and development costs of £1,805,000 (2018: £2,023,000) were expensed in the year including development costs incurred on product development of £699,000 (2018: £748,000) of which £256,000 (2018:£748,000) were capitalised in the year.

EVENTS AFTER THE BALANCE SHEET DATE

Details of significant events since the balance sheet date and an indication of likely future developments in the business of the Company and the Group are summarised in the Strategic Report with more detail provided below:

Impact of Covid-19 pandemic

The circumstances resulting from Covid-19 pandemic are creating an unprecedented level of uncertainty in the UK and beyond. The Board has been closely following guidance issued by governments in territories where the Group operates and the different levels of restrictions implemented by them since the outset of the outbreak and will continue to do so.

In response the Board is taking actions across 4 priority areas: protecting and maximising existing revenue streams; preserving production and supply chain, with special focus on employees; key customer and supplier agreements and potential impacts on its liquidity and financial resources.

The primary focus is on the safety and wellbeing of our employees, suppliers and customers. The Board have taken steps to protect our colleagues who are considered most vulnerable across the Group. For our colleagues who work in key roles in our bakery operations, strict health and safety, hygiene and social distancing measures have been introduced. In addition, those employees whose roles permit them to do so, have been working from home since middle of March 2020. All of our bakery operations have remained fully operational throughout the pandemic and the Board are extremely grateful to our dedicated employees who have been exemplar Geniuses throughout this time, as well as to our commercial and supply chain partners in both the UK and Internationally.

Both the Group and its customers are considered to be part of a group of companies called essential business, which, in periods of crisis, is expected to be the least impacted as it provides consumers with basic goods. EU guidance issued in March in relation to the continuation of the flow of goods and materials also supports the operation of this Group. At the time of authorising the Financial Statements the Company and Group have not experienced material reduction in revenues, neither has the Board received any information of a significant customer cancellation. On the contrary in Q1 2020 the Group saw significant, but partially consumer behaviour driven, net sales growth of 18% compared to last year exceeding expectations while providing the customers with an excellent service level. Core retail sales performance in Q2 and Q3 remains stable and this is expected to continue for the remainder of the financial year. Whilst sales to Food Service customers paused as anticipated during lockdown, trading with existing customers has returned in Q3, although at a lower level than pre-Covid-19. In 2019 this channel represented c.5% of Group revenue.

Based on past experience of former economic downturns, we foresee a more competitive market environment due to Covid-19. The valuation growth strategy; to focus on driving fewer higher potential lines in large international markets and channels, combined with Genius' UK market leadership, provides diverse sales territories and channels in a more competitive market environment. The Board understand Gluten Free Digestive Wellness bakery products are considered essential goods, hence sales performance is less impacted by any potential decline in general demand in consumer goods. This is consistent with what has been seen since the start of the Covid-19 pandemic. If difficulties were to arise, the Board consider that it would be more likely to be within the production side of the business where challenge arose. Therefore the Board are focusing on this area and ensuring proper plans are developed to keep supply of products going, both in the production and supply chain (i.e. shift patterns, extra sanitation, protective clothing and social distancing). Reviews of key supplier and customer relationships were conducted by the Procurement and Commercial teams as part of the Covid-19 impact assessment. The necessary mitigations are in place and there has been no disruption to receipt of ingredients and packaging from our suppliers, delivery of goods to our customers or cash receipts from our trade debtors since the pandemic began. To date no major issue or challenges have been encountered but the Group has plans ready, if required. The 4 shift pattern across the 24/7 bakery operation permits 60% of production volume with 50% of staff; a key element of our contingency plan. Whilst it is unlikely all 4 shifts of employees would be simultaneously affected by Covid-19, requiring a temporary enforced closure of bakery operations, mitigations for this scenario have been considered, e.g. increasing frozen contingency stocks at third party sites. Operationally, the Group continues to operate close to normal and year to date financial performance is exceeding budget.

EVENTS AFTER THE BALANCE SHEET DATE - continued

The Group has a strong financial and investor base. In light of the highly unusual circumstances arising from Covid-19, the Board found it important to conserve cash and maintain maximum balance sheet flexibility. Therefore in April 2020 the liquidity pool was increased by a further £1.5m cash through a pre-existing preference share instrument with Verlinvest, demonstrating our majority shareholder's ongoing confidence in the potential of the business, even in uncertain times. Financial forecasts and sensitivity analysis demonstrate that the increased liquidity pool can support the business for more than 12 months in scenarios of significantly reduced revenue or production activity. The scenarios considered were the 'downside' on the latest forecasts and the 'reverse stress test'; both covered the period to 31 December 2021. In the 'downside scenario' all anticipated risks to the forecast were absorbed into the financials, but mitigations available to management were not taken. In the 'reverse stress test scenario' revenues rapidly declined compared to latest forecast and margins also fell significantly; mitigations within management control, (e.g. cancelling discretionary spend, investing only in essential brand marketing and capex), were taken into the analysis. The financial forecasts of both these scenarios also confirmed covenants on the BNP Confidential Invoice Finance Facility were achieved, further evidence of the Group's financial resilience.

The Board believes it is highly unlikely, given the forecasts and sensitivity analysis noted above that the liquidity pool would be exhausted or covenants breached in the 12 months from the date of signing these financial statements.

EXISTENCE OF BRANCHES OUTSIDE THE UK
The Company has branches, as defined in s1046(3) of the Companies Act 2006, outside the UK as follows:

Genius Australia Pty Limited
Genius France SARL
Genius Germany GmBH

STATEMENT AS TO DISCLOSURE TO AUDITORS
Each of the person who is a director at the date of the approval of this report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Approved by the board and signed on its behalf by:

Peter Quinn

Dr P Quinn - Director

Date: 2 November 2020

22 Northumberland
Street South West Lane
Edinburgh
EH3 6JD

Genius Foods Limited

Directors' Responsibilities Statement
for the Year Ended 31 December 2019

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Group's financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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.

Independent Auditors' Report to the Members of Genius Foods Limited

Opinion

In our opinion:

- the financial statements of Genius Foods Limited (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group and of the Parent Company's affairs as at 31 December 2019 and of the Group loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 *"Reduced Disclosure Framework' applicable in the UK and Republic of Ireland"*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Genius Foods Limited (the 'Parent Company') and its subsidiaries (the 'Group') which comprise:

- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Statements of Financial Positions;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated Statement of Cash Flow; and
- the Notes to the Consolidated Financial Statement from 1 - 33

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *"Reduced Disclosure Framework" applicable in the UK and Republic of Ireland"* (United Kingdom Generally Accepted Accounting Practice).

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 Group and the Parent 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.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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 Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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.

Independent Auditors' Report to the Members of Genius Foods Limited - continued

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 respect of these matters.

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

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent 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 Group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

In the light of the knowledge and understanding of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Independent Auditors' Report to the Members of Genius Foods 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 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.

David Mitchell CA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP

Saltire Court
Edinburgh
United Kingdom

Date: 3 November 2020

Genius Foods Limited

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2019

	Note	2019 £'000	2018 £'000
REVENUE	4	34,388	30,671
Cost of sales		(21,172)	(18,424)
GROSS PROFIT		13,216	12,247
Other operating income		116	97
Distribution costs		(1,120)	(1,318)
Administrative expenses		(15,618)	(16,358)
Impairment	5	-	(362)
OPERATING LOSS		(3,406)	(5,694)
Finance costs	6	(1,268)	(963)
LOSS BEFORE INCOME TAX	7	(4,674)	(6,657)
Income tax	10	(17)	6
LOSS FOR THE YEAR		(4,691)	(6,651)
ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS			
Foreign exchange differences on translation of foreign operations		72	(17)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		(4,619)	(6,668)

The Statement of Comprehensive Income has been prepared on the basis that all operations are continuing operations.

There are no items of other comprehensive income for the period, other than as shown above, hence a separate Statement of Other Comprehensive Income is not presented.

Genius Foods Limited

Consolidated Statement of Financial Position
As at 31 December 2019

	Note	2019 £'000	2018 £'000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	11	13,964	13,964
Other intangible assets	12	623	783
Property, plant and equipment	13	6,634	7,345
Right-of-use assets	26	361	-
Deferred tax assets	24	3	6
		21,585	22,098
CURRENT ASSETS			
Inventories	15	2,394	1,822
Trade and other receivables	16	5,771	5,597
Cash and bank balances	17	722	1,126
		8,887	8,545
TOTAL ASSETS		30,472	30,643
EQUITY			
SHAREHOLDERS' EQUITY			
Called-up share capital	18	12	12
Share premium account	18	45,189	45,189
Retained earnings	19	(36,665)	(32,340)
TOTAL EQUITY BEING NET ASSETS		8,536	12,861

Genius Foods Limited

Consolidated Statement of Financial Position - continued
As at 31 December 2019

	Note	2019 £'000	2018 £'000
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables	20	-	26
Preference shares	30	10,581	9,266
Interest bearing loans and borrowings	21	631	474
Deferred tax	24	47	55
Lease liabilities	26	210	-
		11,469	9,821
CURRENT LIABILITIES			
Trade and other payables	20	6,778	5,586
Provisions	23	21	64
Interest bearing loans and borrowings	21	3,501	2,311
Lease liabilities	26	167	-
		10,467	7,961
TOTAL LIABILITIES		21,936	17,782
TOTAL EQUITY AND LIABILITIES		30,472	30,643

The financial statements of Genius Foods Limited (registered number: SC344777) were approved by the Board of Directors on 2 November 2020 and were signed on its behalf by:

Peter Quinn

Dr P Quinn - Director

Genius Foods Limited

Company Statement of Financial Position
As at 31 December 2019

	Note	2019 £'000	2018 £'000
ASSETS			
NON-CURRENT ASSETS			
Other intangible assets	12	159	234
Property, plant and equipment	13	55	76
Investments	14	14,640	14,640
Right-of-use asset	26	215	-
		15,069	14,950
CURRENT ASSETS			
Inventories	15	87	149
Trade and other receivables	16	8,039	7,634
Cash and cash equivalents	17	489	402
		8,615	8,185
TOTAL ASSETS		23,684	23,135
EQUITY			
SHAREHOLDERS' EQUITY			
Called-up share capital	18	12	12
Share premium account		45,189	45,189
Retained earnings		(52,750)	(47,016)
TOTAL EQUITY		(7,549)	(1,815)
LIABILITIES			
NON-CURRENT LIABILITIES			
Preference shares	30	10,581	9,266
Lease liabilities		130	-
		10,711	9,266
CURRENT LIABILITIES			
Trade and other payables	20	17,240	13,673
Interest bearing loans and borrowings	21	3,194	2,011
Lease liabilities		88	-
TOTAL LIABILITIES		31,233	24,950
TOTAL EQUITY AND LIABILITIES		23,684	23,135

The Company reported a loss for the financial year ended 31 December 2019 of £6,047,000 (2018:£7,698,000).

The financial statements of Genius Foods Limited (registered number: SC344777) were approved by the Board of Directors on 2 November 2020 and were signed on its behalf by:

Peter Quinn

Dr P Quinn - Director

Genius Foods Limited

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2019

	Note	Called-up share capital £'000	Retained earnings £'000	Share premium account £'000	Total equity £'000
Balance at 1 January 2018		12	(26,288)	45,167	18,891
Issue of share capital		-	-	22	22
Loss for the financial year		-	(6,651)	-	(6,651)
Other comprehensive loss		-	(17)	-	(17)
Share based payment reserve	28	-	616	-	616
Balance at 31 December 2018		12	(32,340)	45,189	12,861
Balance at 1 January 2019 - As previously reported		12	(32,340)	45,189	12,861
Effect of change in accounting policy for initial application of IFRS 16		-	(19)	-	(19)
Balance at 1 January 2019		12	(32,359)	45,189	12,842
Loss for the financial year		-	(4,691)	-	(4,691)
Other comprehensive income		-	72	-	72
Share based payment reserve	28	-	313	-	313
Balance at 31 December 2019		12	(36,665)	45,189	8,536

Genius Foods Limited

Company Statement of Changes in Equity for the Year Ended 31 December 2019

	Note	Called-up share capital £'000	Retained earnings £'000	Share premium account £'000	Total equity £'000
Balance at 1 January 2018		12	(39,934)	45,167	5,245
Issue of share capital		-	-	22	22
Loss for the financial year and Total comprehensive loss		-	(7,698)	-	(7,698)
Share based payment reserve	28	-	616	-	616
Balance at 31 December 2018		12	(47,016)	45,189	(1,815)
Balance at 1 January 2019 - As previously reported		12	(47,016)	45,189	(1,815)
Effect of change in accounting policy for initial application of IFRS 16		-	-	-	-
Balance at 1 January 2019		12	(47,016)	45,189	(1,815)
Loss for the financial year and Total comprehensive loss		-	(6,047)	-	(6,047)
Share based payment reserve	28	-	313	-	313
Balance at 31 December 2019		12	(52,750)	45,189	(7,549)

Genius Foods Limited

Consolidated Statement of Cash Flows
for the Year Ended 31 December 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Cash generated from operations	27	(1,161)	(3,830)
Tax paid		-	278
Net cash from operating activities		(1,161)	(3,552)
Cash flows from investing activities			
Purchase of intangible fixed assets		-	(10)
Purchase of tangible fixed assets		(521)	(930)
Sale of intangible fixed assets		-	-
Capitalised development costs		(256)	(748)
Net cash from investing activities		(777)	(1,688)
Cash flows from financing activities			
Repayment of bank loan		(2,011)	(74)
Drawdown of loan		3,035	-
Repayment of hire purchase obligations		(300)	(310)
Share issue		205	5,327
Asset finance		605	-
Net cash from financing activities		1,534	4,943
Net decrease in cash and cash equivalents		(404)	(297)
Cash and cash equivalents at beginning of year	17	1,126	1,423
Cash and cash equivalents at end of year	17	722	1,126

1. GENERAL INFORMATION

Genius Foods Limited ("the Company") is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in Scotland. The Company's registered office is 22 Northumberland Street, South West Lane, Edinburgh, EH3 6JD. The Group produces, markets, distributes and sells Gluten Free Digestive Wellness products to customers in the UK and key overseas markets.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. The consolidated financial statements comprise the Company and its subsidiaries (collectively the "Group" and individually "group companies"). Foreign operations are included in accordance with the policies set out in note 2.

For the year ending 31 December 2019 the following subsidiaries of the Company were entitled to exemption from audit under s479A of the Companies Act 2006 relating to subsidiary companies.

Subsidiary Name	Companies House Registration Number
United Central Bakeries Ltd	SC116630
Livwell Ltd	06532252
Chapel Foods Ltd	07374830

2. ACCOUNTING POLICIES

Basis of preparation of the financial statements
The Group has prepared its financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The Company has prepared its financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with recognition and measurement criteria of IFRS.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

Basis of preparation of the financial statements (Company)
The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements are prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework.

These financial statements have been prepared on the going concern basis and under the historical cost accounting convention.

The Company has taken advantage of the legal dispensation contained within s.408 of the Companies Act 2006 allowing it not to publish a separate statement of other comprehensive income.

2. **ACCOUNTING POLICIES - continued**

Basis of preparation of the financial statements (Company) - continued

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: (i) paragraph 79(a) (iv) of IAS 1, (ii) paragraph 73(e) of IAS 16 Property Plant and Equipment (iii) paragraph 118 (e) of IAS 38 Intangibles Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 40A, 40B ,111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Directors' emoluments and employee disclosures in relation to the Company are included within notes 8 and 9 to the Group accounts respectively.

The accounting policies of the Company are consistent with those disclosed in the Group accounting policies section of the financial statements.

The principal accounting policies adopted are set out below.

Going concern

Impact of COVID-19 pandemic

The circumstances resulting from Covid-19 pandemic are creating an unprecedented level of uncertainty in the UK and beyond. The Board has been closely following guidance issued by governments in territories where the Group operates and the different levels of restrictions implemented by them since the outset of the outbreak and will continue to do so.

In response the Board is taking actions across 4 priority areas: protecting and maximising existing revenue streams; preserving production and supply chain, with special focus on employees; key customer and supplier agreements; and potential impacts on its liquidity and financial resources.

The primary focus is on the safety and wellbeing of our employees, suppliers and customers. The Board have taken steps to protect our colleagues who are considered most vulnerable across the Group. For our colleagues who work in key roles in our bakery operations, strict health and safety, hygiene and social distancing measures have been introduced. In addition, those employees whose roles permit them to do so, have been working from home since middle of March 2020. All of our bakery operations have remained fully operational throughout the pandemic and the Board are extremely grateful to our dedicated employees who have been exemplar Geniuses throughout this time, as well as to our commercial and supply chain partners in both the UK and Internationally.

Both the Group and its customers are considered to be part of a group of companies called essential business, which, in periods of crisis, is expected to be the least impacted as it provides consumers with basic goods. EU guidance issued in March in relation to the continuation of the flow of goods and materials also supports the operation of this Group. At the time of authorising the Financial Statements the Company and Group have not experienced material reduction in revenues, neither has the Board received any information of a significant customer cancellation. On the contrary in Q1 2020 the Group saw significant, but partially consumer behaviour driven, net sales growth of 18% compared to last year exceeding expectations while providing the customers with an excellent service level. Core sales performance in Q2 and Q3 remains stable and this is expected to continue for the remainder of the financial year.

2. **ACCOUNTING POLICIES - continued**

Going concern - continued

Impact of COVID-19 pandemic - continued

Based on past experience of former economic downturns, the Board foresee a more competitive market environment due to Covid-19. The valuation growth strategy; to focus on driving fewer higher potential lines in large international markets and channels, combined with Genius' UK market leadership, provides diverse sales territories and channels in a more competitive market environment. The Board understand Gluten Free Digestive Wellness bakery products are considered essential goods, hence sales performance is less impacted by any potential decline in general demand in consumer goods. This is consistent with what has been seen since the start of the Covid-19 pandemic. If difficulties were to arise, the Board consider that it would be more likely to be within the production side of the business where challenge arose. Therefore the Board are focusing on this area and ensuring proper plans are developed to keep supply of products going, both in the production and supply chain (i.e. shift patterns, extra sanitation, protective clothing and social distancing). Reviews of key supplier and customer relationships were conducted by the Procurement and Commercial teams as part of the Covid-19 impact assessment. The necessary mitigations are in place and there has been no disruption to receipt of ingredients and packaging from our suppliers, delivery of goods to our customers or cash receipts from our trade debtors since the pandemic began. To date no major issue or challenges have been encountered but the Group has plans ready, if required. The 4 shift pattern across the 24/7 bakery operation permits 60% of production volume with 50% of staff; a key element of our contingency plan. Whilst it is unlikely all 4 shifts of employees would be simultaneously affected by Covid-19, requiring a temporary enforced closure of bakery operations, mitigations for this scenario have been considered, e.g. increasing frozen contingency stocks at third party sites. Operationally, the Group continues to operate close to normal and year to date financial performance is exceeding budget.

The Group has a strong financial and investor base. In light of the highly unusual circumstances arising from Covid-19, the Board found it important to conserve cash and maintain maximum balance sheet flexibility. Therefore in April 2020 the liquidity pool was increased by a further £1.5m cash through a pre-existing preference share instrument with Verlinvest, demonstrating our majority shareholder's ongoing confidence in the potential of the business, even in uncertain times. Financial forecasts and sensitivity analysis demonstrate that the increased liquidity pool can support the business for more than 12 months in scenarios of significantly reduced revenue or production activity. The scenarios considered were the 'downside' on the latest forecasts and the 'reverse stress test'; both covered the period to 31 December 2021. In the 'downside scenario' all anticipated risks to the forecast were absorbed into the financials, but mitigations available to management were not taken. In the 'reverse stress test scenario' revenues rapidly declined compared to latest forecast and margins also fell significantly; mitigations within management control (e.g. cancelling discretionary spend, investing only in essential brand marketing and capex) were taken into the analysis. The financial forecasts of both these scenarios also confirmed covenants on the BNP Confidential Invoice Finance Facility were achieved, further evidence of the Group's financial resilience.

The Board believes it is highly unlikely, given the forecasts and sensitivity analysis noted above that the liquidity pool would be exhausted or covenants breached in the 12 months from the date of signing these financial statements.

2. **ACCOUNTING POLICIES - continued**

Adoption of new and revised Standards
Impact of initial application of IFRS 16 Leases

In the current year, the Company has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note **2.** The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The date of initial application of IFRS 16 for the Company is 1 January 2019.

The Company has applied IFRS 16 using the cumulative catch-up approach which:

- requires the Company to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

(a) Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

(b) Impact on lessee accounting

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of profit or loss.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within the administrative expenses line item.

The Company has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

2. **ACCOUNTING POLICIES - continued**

Adoption of new and revised Standards - continued

Impact of initial application of IFRS 16 Leases - continued

(b) Impact on lessee accounting - continued

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review.
- The Company has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Company has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Company has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

(ii) Former finance leases
For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Company has elected to apply the low-value lease recognition exemption.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019.

(c) Impact on lessor accounting
IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17). This change has not resulted in the reclassification of any sub-lease agreements as finance leases.

(d) Financial impact of initial application of IFRS 16
The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the Statement of Financial Position on 1 January 2019 is 10.8%.

The following table shows the operating lease commitments disclosed applying IAS 17 at 31 December 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the Statement of Financial Position at the date of initial application.

Impact on retained earnings as at 1 January 2019

	£
Operating lease commitments at 31 December 2018	430
Lease liabilities recognised at 1 January 2019	430

The Company has recognised £361k of right-of-use assets and £378k of lease liabilities upon transition to IFRS 16. The difference of £19k is recognised in retained earnings.

2. ACCOUNTING POLICIES - continued

Adoption of new and revised Standards

Impact of initial application of other amendments to IFRS Standards and Interpretations

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (the Board) that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

The Company has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

Annual Improvements to IFRS Standards 2015–2017 Cycle *IAS 12* Income Taxes and IAS 23 Borrowing Costs

The Group has adopted the amendments included in the *Annual Improvements to IFRS Standards 2015–2017 Cycle* for the first time in the current year. The *Annual Improvements* include amendments to four Standards, two of which in respect of IFRS 3 and IFRS 11 are not applicable to the Company.

IAS 12 *Income Taxes*
The amendments clarify that the Group should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Group originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 *Borrowing Costs*
The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRIC 23 *Uncertainty over Income Tax Treatments*

The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
    - If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
    - If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

2. **ACCOUNTING POLICIES - continued**

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December 2019 (based on a year ending on the Saturday nearest to 31 December). Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Business combinations
Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

• deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

• liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see below); and

• assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes an asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

2. ACCOUNTING POLICIES - continued

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 Financial Instruments: Recognition and Measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held interests in the acquired entity is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired business at the date of acquisition. Goodwill is not amortised. Instead, goodwill is tested annually for impairment or if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

(ii) Product development and trademarks

Product development and trademarks represent the cost or fair value on purchases of trademarks and the cost of development of new products. Product development costs are amortised over their useful life of 3 years. Amortisation methods and useful lives are reviewed at each reporting date and adjusted if appropriate. Trademarks are assessed as having an indefinite useful life and, as a result, no amortisation charge is applied. Instead, trademarks are subject to an annual impairment review.

(iii) Research and development

Expenditure on research activities is recognised in profit or loss as incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

2. **ACCOUNTING POLICIES - continued**

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(iv) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development to use the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs are defined as having finite useful lives and the costs are amortised on a straight line basis over their estimated useful lives of 3 years. Intangible assets are stated at cost less amortisation and are reviewed for impairment whenever there is an indication that the carrying value may be impaired.

(v) Other intangible assets

Other intangible assets, include customer relationships and trade secrets that have been acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Customer relationships are amortised over 3 years and trade secrets over 5 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

2. ACCOUNTING POLICIES - continued

Property, plant equipment
Property plant and equipment are stated at historic cost or fair value on acquisition, less accumulated depreciation and any accumulated impairment losses. Historic cost includes the expenditure that is directly attributable to the acquisition of the items; interest costs are not capitalised. Subsequent costs are included in an 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. All other repairs and maintenance are charged to the Statement Of Comprehensive Income during the financial period in which they are incurred. Depreciation is provided on all property, plant and equipment assets, other than freehold land, at rates calculated to write off the cost or valuation less estimated residual value of each asset over its expected useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. The assets' useful lives are as follows:

Freehold buildings	25-50 years
Plant and machinery	3-17 years
Fixtures, fittings and equipment	3-5 years

Depreciation on assets under the course of construction commences when the assets are available for operational use.

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the asset carrying value, and is recognised in the Statement Of Comprehensive Income.

Inventories
Inventories are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the standard cost price is used. This is adjusted at each period end to reflect actual costs. For work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of directly attributable overheads. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs to make the sale.

Government grants
Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary conditions are that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the Consolidated Statement of Financial Position and transferred to profit or loss on a systematic and rational basis over the useful life of the related assets.

2. **ACCOUNTING POLICIES - continued**

Finance income and finance costs
The Group's finance income and finance costs include interest income and expense, and any foreign currency gains or losses on financial assets and liabilities.

Taxation
Corporation tax is accounted for using the taxes payable method. The corporation tax expense recorded in the Statement Of Comprehensive Income for the period represents the corporation tax payable for the period.

The current corporation tax asset or liability recognised on the Statement of Financial Position represents the current corporation tax balance due from or obligation to the relevant tax authority at the reporting date. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:
- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and;
- in respect of taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes related to the same taxable entity and the same taxation authority.

2. ACCOUNTING POLICIES - continued

Leases

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the Consolidated Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

2. **ACCOUNTING POLICIES - continued**

Leases - continued
The Group as lessee - continued
Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the Property, Plant and Equipment policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other operating expenses" in the statement of profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

Employee benefits
The Group operates defined contribution pension schemes. The pension costs charged in the financial statements represent the contributions payable by the Group during the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Balance Sheet.

Foreign currency transactions
The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not translated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity.

2. ACCOUNTING POLICIES - continued

Revenue
The Group recognises revenue from the sale of goods. Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognises revenue when it transfers control of a product to a customer, generally being when the goods have been shipped to the customer. A receivable is recognised by the Group when the goods have been shipped as this represents the point in time at which the right to consideration becomes unconditional. A refund liability is recognised for expected credit notes, based on accumulated historical experience. It is considered highly probably that a significant reversal in revenue recognised will not occur. The transaction price is stated net of sales related taxes, trade discounts and marketing related costs which are not capable of being separated from the sales transactions.

Share-based payments
Share-based payments relate to equity-settled growth shares. The value, as at the grant date, of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period over which the employees become unconditionally entitled to the options. The value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest as a result of relevant performance conditions being met.

Non-derivative financial instruments
The Group classifies its non-derivative financial assets as loans and receivables.

(i) Non-derivative financial assets
The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such de-recognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method.

2. ACCOUNTING POLICIES - continued

(ii) Non-derivative financial liabilities
The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans, borrowings and trade and other creditors.

(iii) Called-up share capital
Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Share premium
Share premium is recorded as the excess over nominal value of the consideration received for ordinary shares.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Restructurings
A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Preference shares
Preference shares are classified as financial liabilities in accordance with the substance of the contractual arrangements and the definitions of a financial liability. Preference shares are measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees, transactions costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

2. ACCOUNTING POLICIES - continued

Cash and cash equivalents

Cash and short term deposits in the Statement of Financial Position comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

Impairment

(i) Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security, or observable data indicating that there is a measureable decrease in the expected cash flows from a group of financial assets.

Financial assets measured at amortised cost

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the profit or loss. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets (trademarks) are tested annually for impairment.

2. **ACCOUNTING POLICIES - continued**

(ii) Non-financial assets - continued
The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (or group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Critical judgments in applying the Group's accounting policies
The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Exceptional items
Management consider that some costs incurred by the Group should be shown as exceptional administrative expenses on the face of the Statement Of Comprehensive Income. Those costs which are separated are costs which management consider to be non-recurring costs, required to be separated in order to provide the user of the financial statements a true and fair view of the underlying trading results of the Group.

Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below: