

VITACRESS LIMITED

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Company Registration Number 06544254 (England and Wales)

VITACRESS LIMITED
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FOR THE YEAR ENDED 31 DECEMBER 2018

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VITACRESS LIMITED
COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2018

Directors

V Santos
R T Bastos
T J Brinsmead
S D Rothwell PhD
R J Wilkinson (resigned 30 April 2018)
A Cooper (appointed 5 October 2018)

Secretary

A Cooper

Company registration number

06544254

Registered office

Lower Link Farm
St Mary Bourne
Andover
Hampshire
SP11 6DB

Independent auditors

Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
Hampshire
SO14 3QB

Bankers

Deutsche Bank AG, London

Trading subsidiaries

Vitacress Salads Limited
Vitacress Kent Limited
Vitacress Portugal SGPS SA
VAISA Agricultura Intensiva SA
Vitacress Portugal SA
Euralface Agricultura Limitada
Vitacress España SL
Vitacress Nurseries (previously known as Wight Salads Group Limited)
Margaret Nurseries San Martin SL
Vitacress Herbs Limited
Vitacress Real BV

VITACRESS LIMITED
STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

The directors have pleasure in presenting their strategic report, directors' report and the audited Consolidated Financial Statements for the Vitacress Group (the "Group" or "Vitacress") for the year ended 31 December 2018. Vitacress Limited ("the Company") is the RAR Group's holding company for all its fresh produce businesses and also provides certain services to Group companies, especially those in the UK.

Principal activity

The Group's principal activity is the growing, procurement, packing and marketing of fresh produce. The Company provides shared services to the business units in the finance, sales and IT areas and also manages the treasury requirements of all the UK businesses.

Vitacress's main operations are conducted through four businesses, namely; Vitacress Salads (watercress and leafy salads in the UK), Vitacress Portugal (watercress, baby leaf salads and other packaged fresh produce in Portugal and Spain, plus bulk leaf supply to the UK), Vitacress Herbs (fresh herbs in the UK), and Vitacress Real (fresh herbs in Benelux and Germany).

Vitacress also owns 51% stake in a baby leaf salads grower in Spain (Vitacress España). In 2018 Vitacress purchased an extra 0.1% in Vitacress Real which resulted in Vitacress now having a 50.1% stake in Vitacress Real in the Netherlands, from where fresh cut herbs are packed for the Benelux and German markets.

Each of the Vitacress companies has the following attributes in common:

- They are based on excellence in farming, whether it is open field farming or under glass in a nursery.
- They set leading standards in terms of product quality, technical skills and environmental stewardship.
- They are leaders in innovation and product quality in their chosen markets.

Review of the business

The performance in 2018 was positive with the Group's continued focus on efficiency and capital investment throughout the period and growth of its own brands in UK and Portugal.

The directors use a number of measures to monitor and benchmark the performance of the Group. They regard the following as the key financial indicators of performance:

- Revenue and revenue growth (2018: £113,158,000; 2017: £103,663,000, 9.2% increase from 2017).
- EBITDA (Operating profit before RAR Management Charge and depreciation and amortisation) – measuring the cash generating potential of the Group's operations (2018: £11,690,000; 2017: £10,730,000, 8.9% growth from 2017).
- Net cash flow from operating activities – measuring the performance in translating operating profit into cash flow through management of working capital (shown in Statement of Cash flows on page 15).

The table below presents consolidated sales and Earnings before Interest, Tax, Depreciation and Amortisation charges ('EBITDA') data as reported to senior management during the year. The EBITDAs in both years exclude the impact of certain management charges from the group's parent company; RAR. Otherwise, the numbers can be reconciled with these statutory accounts. These are the key financial measures used in assessing performance during the year.

| | Revenue | | EBITDA | |
|------------------|----------------|----------------|---------------|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Salads | 48,223 | 46,806 | 4,880 | 3,953 |
| Portugal | 23,650 | 20,365 | 1,833 | 2,499 |
| Herbs | 37,564 | 36,062 | 4,398 | 4,065 |
| Real | 3,301 | - | 171 | - |
| Other operations | 420 | 430 | 408 | 213 |
| Total | 113,158 | 103,663 | 11,690 | 10,730 |

In 2018, Vitacress Salads completed the next stage of development of its salad packing facility in St Mary Bourne. This in conjunction with the vertically integrated supply chain ensured that customer service and product quality were enhanced in the year.

During 2018, Vitacress Herbs has benefited from the installation of new advanced packing machinery as part of the Group's focus on pioneering technology and automation. Vitacress Herbs maintained its position in the market and demonstrated high product quality and customer service to deliver a strong trading performance.

Despite difficult farming conditions, Vitacress Portugal had a good performance in 2018. The Vitacress brand continues to develop and is the market leader in Portugal in both bagged salads and in ready to eat vegetables. Investments have been made in more advanced salad packing facilities to further enhance quality, service and productivity.

Growing salads and herbs in Vitacress Spain continued to provide the Group with a range of sourcing options to enable year round supply of consistent, high quality products regardless of the season.

Fresh cut herbs are also packed in the Netherlands at Vitacress Real, where Vitacress increased its participation during 2018 in the venture that is operated between Vitacress and the Dutch Gipmans Group. These products are sold in Holland, Belgium and Germany and there has been continued and growth in 2018, with the business benefitting from the move into new facilities at the end of 2017.

Discontinued operations

The Group has sold its remaining non-core tomato nurseries in Portugal and Spain allowing the Group to further focus on salads and herbs. The removal of discontinued operations from the 2017 comparatives accounts for the restated figures within the Financial Statements.

Results and movements in equity

The Consolidated Income Statement for the year is set out on page 9. The Group profit after taxation amounted to £2,333,000 (2017: £2,463,000). Total equity at 31 December 2018 was £37,593,000 (2017: £46,480,000) and the movements are set out on page 13.

Future developments

The Group will continue to invest in capital and innovation, while focusing on quality, service and efficiency, with an overarching commitment to health and safety.

Risk management objectives and policies

Operating risks

Vitacress operates in a challenging economic climate, in which inflationary pressure on costs must be balanced against the price expectations of our customers and competition within the market. The nature of the business, being the growing, procurement and supply of fresh produce, means the Group is always faced with the uncertainties of the weather and its impact upon both supply of product and the demand of the ultimate consumers. Accordingly, the directors assess the key risks to the business as:

- Poor weather, reducing demand and depressing supply;
- Continued weakness of Sterling against the Euro;
- Continued pressure from the market to reduce prices;
- Weakness in demand due to the general economic climate, or other external factors (e.g. consumer trends); and
- Higher input prices, increasing costs of production.

The directors are addressing these risks by:

- Continuing to optimise the balance between own-grown and third party procured sources of raw material;
- Hedging foreign currency and energy exposures where forecast;
- Reducing operating costs through capital investment and efficiency improvement initiatives; and
- Focusing on the delivery of superior product quality and unique "points of difference" so as to differentiate our products from our competitors.

In terms of the impact of Brexit, the Group have already imported products from non - EU countries and have traded on WTO terms. There are also procedures in place to address a hard Brexit. Therefore, the management believe that the impact of Brexit on the business is not material enough to be treated as an operational risk.

Financial risks

The Group's operations expose it to a variety of financial risks that include credit risk, liquidity risk and market risk (specifically, interest rate risk and exchange rate risk). The Group has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Group.

Credit risk

The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. The Group continually monitors existing customer accounts and takes appropriate action where necessary to minimise any potential credit risk. In Vitacress Portugal, credit insurance is used to mitigate credit risk. Due to the dependence of the other businesses on a small number of large, stable retail customers, credit insurance is not an economic option there.

Liquidity risk

The Group retains sufficient cash and overdraft facilities to ensure it has sufficient available funds for operations and planned expansions. The Group also has access to longer term funding if required. The Group uses a combination of term loans and overdrafts to manage its working capital requirements, which are strongly seasonal in nature.

Interest rate risk

The Group has interest bearing assets and interest bearing liabilities. Interest bearing assets include cash balances, all of which earn interest at a floating rate. Interest bearing liabilities are all at floating rates.

Foreign exchange risk

The Group has a policy of covering forward its estimated net currency exposure on a rolling basis. These transactions are designated as hedging instruments and are deemed effective in cash flow hedge relationships, and are accounted for in line with the policy for derivatives and hedge accounting detailed in note 3.20.

Market value of land and buildings

The market and net book values of land and buildings, including glasshouses, is disclosed in notes 14 and 15.

Approved by the board, and signed on their behalf on:

.....
A Cooper
Director

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

Directors

The directors who held office during the year and up to the date of signing these Financial Statements are shown on page 1 of these Financial Statements.

Principal activity and results for the period

The principal activity of the Group and Company and the results for the period have not been presented in the Directors' report as they have been presented in the Strategic Report set out on pages 2 & 3.

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Financial Statements for each financial year. Under that law the directors have prepared the Group and Parent Company Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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 as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and Group's financial position and financial performance;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union 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 Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Going Concern

At the year end, the Group's assets exceeded its liabilities by £37.6m.

In addition, in preparing the financial statements the directors have had regard to the fact that the Company generated a pre-tax profit on continuing operations of £5,589,000 in the financial year ended 31 December 2018 (2017: £3,800,000).

Therefore, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. It is for this reason that the Directors have adopted the going concern basis in preparing the financial statement

Dividends

A final dividend for 2018 has not been proposed prior to the approval of these Financial Statements and there is no intention to declare such a dividend (2017: £nil).

Directors' and officers' indemnity insurance

The Company has taken out insurance to indemnify, against third party proceedings, the directors of the Company whilst serving on the board of the Company and of any subsidiary. This cover also indemnifies those employees of the Group who serve on the boards of subsidiaries. The cover subsisted throughout the year and remains in place at the date of this report.

Employees

The Group's policy is to encourage employee involvement, thereby improving Group performance through regular meetings. Information on matters of concern to employees is given through staff newsletters, employee forums, management meetings and regular team briefings, which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance.

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Political and charitable donations

During the financial year the Group made donations to UK and Portuguese registered charities of £73,129 (2017: £65,217).

Disclosure of information to auditors

In so far as the directors in office at the date of approval of this report are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the directors have taken all 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 auditors are aware of that information.

Independent auditors

The auditors, Ernst & Young LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Approved by the board, and signed on their behalf on:

.....

A Cooper
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VITACRESS LIMITED

Opinion

We have audited the financial statements of Vitacress Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the Consolidated Income Statement, the Consolidated Statement of Other Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of cash flows and the related notes 1 to 36, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the 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.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

**INDEPENDENT AUDITORS' REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of 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 <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

David Hales (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Southampton
Date

VITACRESS LIMITED
Consolidated Income Statement for the year ended 31 December 2018

| | <i>Notes</i> | 2018 | 2017 |
|---|--------------|----------------|---------------------------|
| | | <u>£'000</u> | <u>restated £'000</u> |
| Continuing operations | | | |
| Revenue | 5 | 113,158 | 103,663 |
| Raw materials and consumables used | | (40,304) | (35,319) |
| Changes in inventories | | 766 | 273 |
| Changes in fair value of bearer and biological assets | | (9) | 647 |
| External supplies and services | | (32,077) | (30,303) |
| Depreciation and amortisation expenses | 14, 15, 17 | (5,971) | (5,737) |
| Employee expenses | 6 | (33,249) | (31,944) |
| Other operating expenses | | <u>(649)</u> | <u>(369)</u> |
| Total operating expenses | | (111,493) | (102,752) |
| Other operating income | 8 | <u>3,029</u> | <u>3,434</u> |
| Operating profit | | 4,694 | 4,345 |
| Financial expenses | 10 | (885) | (1,014) |
| Financial income | 11 | 37 | 189 |
| Income on joint venture company | 11, 18 | 155 | 280 |
| Gain on step acquisition | 18 | <u>1,588</u> | <u>-</u> |
| Profit before tax from continuing operations | | 5,589 | 3,800 |
| Income tax expense | 13 | <u>(531)</u> | <u>(46)</u> |
| Profit after tax for the year from continuing operations | | 5,058 | 3,754 |
| Discontinued operations | | | |
| (Loss) after tax for the year from discontinued operations | 12 | <u>(2,725)</u> | <u>(1,291)</u> |
| Profit/(loss) for the year | | <u>2,333</u> | <u>2,463</u> |
| Attributable to: | | | |
| Owners of the Company | | 2,315 | 2,526 |
| Non-controlling interests | | <u>18</u> | <u>(63)</u> |
| | | <u>2,333</u> | <u>2,463</u> |

The 2017 comparatives have been restated to exclude discontinued operations. See note 12 for further details of restated balances.

The accompanying notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Other Comprehensive Income for the year ended 31 December 2018

| | Group 2018 | Group 2017 |
|--|-----------------------|-----------------------|
| | <u>£'000</u> | <u>£'000</u> |
| Profit for the year | 2,333 | 2,463 |
| Other comprehensive income | | |
| <i>Items that may be subsequently reclassified to profit or loss (net of tax)</i> | | |
| Exchange differences on translating foreign operations | (482) | 519 |
| Cash flow hedging | <u>208</u> | <u>(128)</u> |
| Other comprehensive (loss)/income, net of tax | <u>(274)</u> | <u>391</u> |
| Total comprehensive income for the year, net of tax | <u>2,059</u> | <u>2,854</u> |
| Total comprehensive income/(loss) for the year attributable to: | | |
| Owners of the parent | 2,031 | 3,100 |
| Non-controlling interest | <u>28</u> | <u>(246)</u> |
| | <u>2,059</u> | <u>2,854</u> |

The income tax relating to each component of other comprehensive income is disclosed in note 28.

All total comprehensive income is attributable to equity shareholders.

The accompanying notes form an integral part of these Consolidated Financial Statements.

VITACRESS LIMITED
Consolidated Statement of Financial Position as at 31 December 2018

| | <i>Notes</i> | 2018 £'000 | 2017 £'000 |
|---|--------------|----------------------|----------------------|
| Assets | | | |
| <i>Non-current assets</i> | | | |
| Property, plant and equipment | 14 | 50,910 | 53,773 |
| Investment property | 15 | - | 476 |
| Investment in joint venture | 18 | - | 337 |
| Other investments | | 88 | 2 |
| Goodwill | 16 | 17,198 | 15,602 |
| Other intangible assets | 17 | 1,998 | 2,242 |
| Deferred tax assets | 28 | 934 | 905 |
| Other non-current assets | | 90 | 20 |
| Total non-current assets | | 71,218 | 73,357 |
| <i>Current assets</i> | | | |
| Inventories | 19 | 5,043 | 4,113 |
| Biological assets | 20 | 3,812 | 4,954 |
| Loans to Group companies | 26 | 40 | 498 |
| Trade and other receivables | 21 | 12,865 | 13,941 |
| Derivative financial instruments | 26 | 36 | - |
| Cash and cash equivalents | 22 | 2,719 | 1,796 |
| Total current assets | | 24,515 | 25,302 |
| Total assets | | 95,733 | 98,659 |
| Equity and liabilities | | | |
| <i>Capital and reserves</i> | | | |
| Share capital | 23 | (49,942) | (59,942) |
| Revaluation reserve | 24 | - | - |
| Cash flow hedge reserve | 24 | (38) | 170 |
| Other reserve | 24 | (315) | (315) |
| Foreign currency translation reserve | 24 | (1,626) | (1,572) |
| Retained loss | | 15,543 | 15,879 |
| Total equity attributable to owners of the parent | | (36,378) | (45,780) |
| Non-controlling interests | | (1,215) | (700) |
| Total equity | | (37,593) | (46,480) |
| <i>Non-current liabilities</i> | | | |
| Borrowings | 26 | (25,178) | (26,267) |
| Finance lease obligations | 29 | (1) | (11) |
| Deferred tax liabilities | 28 | (2,626) | (2,829) |
| Other non-current liabilities | 27 | (349) | (1,295) |
| Total non-current liabilities | | (28,154) | (30,402) |
| <i>Current liabilities</i> | | | |
| Borrowings | 26 | (8,118) | (2,197) |
| Finance lease obligations | 29 | (10) | (10) |
| Trade and other payables | 27 | (21,858) | (19,365) |
| Derivative financial instruments | 26 | - | (205) |
| Total current liabilities | | (29,986) | (21,777) |
| Total liabilities | | (58,140) | (52,179) |
| Total equity and liabilities | | (95,733) | (98,659) |

The accompanying notes form an integral part of these Consolidated Financial Statements. The Financial Statements were approved by the board of directors and authorised for issue on 2019 and were signed on its behalf by:

.....
A Cooper
Director
Vitacress Limited
Registered number: 06544254

Company Statement of Financial Position as at 31 December 2018

| | <i>Notes</i> | 2018 £'000 | 2017 £'000 |
|----------------------------------|--------------|----------------------|----------------------|
| Assets | | | |
| <i>Non-current assets</i> | | | |
| Property, plant and equipment | 14 | 13 | 21 |
| Investments | 18 | 65,757 | 66,098 |
| Other intangible assets | 17 | 196 | 554 |
| Deferred tax assets | 28 | 16 | 15 |
| Total non-current assets | | 65,982 | 66,688 |
| <i>Current assets</i> | | | |
| Loans to Group companies | 26 | 21,726 | 20,190 |
| Trade and other receivables | 21 | 719 | 962 |
| Cash and cash equivalents | 22 | 2,082 | 1,374 |
| Total current assets | | 24,527 | 22,526 |
| Total assets | | 90,509 | 89,214 |
| Equity and liabilities | | | |
| <i>Capital and reserves</i> | | | |
| Share capital | 23 | (49,942) | (59,942) |
| Cash flow hedge reserve | 24 | - | - |
| Retained earnings | | (5,197) | (2,964) |
| Total equity | | (55,139) | (62,906) |
| <i>Non-current liabilities</i> | | | |
| Borrowings | 26 | (21,610) | (22,452) |
| Total non-current liabilities | | (21,610) | (22,452) |
| <i>Current liabilities</i> | | | |
| Borrowings | 26 | (12,564) | (2,275) |
| Trade and other payables | 27 | (1,196) | (1,581) |
| Derivative financial instruments | 26 | - | - |
| Total current liabilities | | (13,760) | (3,856) |
| Total liabilities | | (35,370) | (26,308) |
| Total equity and liabilities | | (90,509) | (89,214) |

The accompanying notes form an integral part of these Financial Statements. The Financial Statements were approved by the board of directors and authorised for issue on 2019 and were signed on its behalf by:

.....
A Cooper
Director
Vitacress Limited
Registered number: 06544254

VITACRESS LIMITED

Consolidated Statement of changes in equity for the year ended 31 December 2018

| | Share capital | Revaluation reserve | Cash flow hedge reserve | Other reserve | Foreign currency translation reserve | Retained earnings | Total attributable to owner of parent | Non- controlling interest | Total equity |
|--|------------------|------------------------|----------------------------------|------------------|---|----------------------|--|---------------------------------|-----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 January 2017 | 59,942 | - | (42) | 315 | 1,011 | (18,322) | 42,904 | 946 | 43,850 |
| Profit for the year | - | - | - | - | - | 2,526 | 2,526 | (63) | 2,463 |
| <i>Other comprehensive income:</i> | | | | | | | | | |
| Cash flow hedging | - | - | (128) | - | - | - | (128) | - | (128) |
| Exchange differences on translating foreign operations | - | - | - | - | 561 | (83) | 478 | 41 | 519 |
| Total other comprehensive income for the year | - | - | (128) | - | 561 | (83) | 350 | 41 | 391 |
| Dividend payment | - | - | - | - | - | - | - | (224) | (224) |
| Balance at 31 December 2017 | 59,942 | - | (170) | 315 | 1,572 | (15,879) | 45,780 | 700 | 46,480 |
| Profit for the year | - | - | - | - | - | 2,315 | 2,315 | 18 | 2,333 |
| <i>Other comprehensive income:</i> | | | | | | | | | |
| Cash flow hedging | - | - | 208 | - | - | - | 208 | - | 208 |
| Exchange differences on translating foreign operations | - | - | - | - | 54 | (546) | (492) | 10 | (482) |
| Total other comprehensive loss for the year | - | - | 208 | - | 54 | (546) | (284) | 10 | (274) |
| Disposal of a subsidiary | - | - | - | - | - | (1,433) | (1,433) | - | (1,433) |
| Acquisition of a subsidiary | - | - | - | - | - | - | - | 487 | 487 |
| Repayment of share capital | (10,000) | - | - | - | - | - | (10,000) | - | (10,000) |
| Balance at 31 December 2018 | 49,942 | - | 38 | 315 | 1,626 | (15,543) | 36,378 | 1,215 | 37,593 |

The accompanying notes form an integral part of these Consolidated Financial Statements.

VITACRESS LIMITED

Company Statement of changes in equity for the year ended 31 December 2018

| | Share capital £'000 | Cash flow hedge reserve £'000 | Retained earnings £'000 | Total parent equity £'000 |
|---|---------------------------|--|-------------------------------|------------------------------------|
| Balance at 1 January 2017 | 59,942 | (1) | 802 | 60,743 |
| Profit for the year* | - | - | 2,162 | 2,162 |
| <i>Other comprehensive income:</i> | | | | |
| Cash flow hedging | - | 1 | - | 1 |
| Total other comprehensive income for the year | - | 1 | - | 1 |
| Balance at 31 December 2017 | 59,942 | - | 2,964 | 62,906 |
| Profit for the year* | - | - | 2,233 | 2,233 |
| <i>Other comprehensive income:</i> | | | | |
| Cash flow hedging | - | - | - | - |
| Total other comprehensive loss for the year | - | - | 2,233 | 2,233 |
| Repayment of share capital | (10,000) | - | - | (10,000) |
| Balance at 31 December 2018 | 49,942 | - | 5,197 | 55,139 |

The accompanying notes form an integral part of these Financial Statements.

*As permitted by section 408 of the Companies Act 2006, statement of comprehensive income and related notes to the financial statements have not been presented. The Company's profit for the period was £2,233,000 (2017: profit £2,162,000).

VITACRESS LIMITED
Statement of cash flows for the year ended 31 December 2018

| | Group 2018 | Group 2017 | Company 2018 | Company 2017 |
|--|-----------------------|-----------------------|-------------------------|-------------------------|
| | <u>£'000</u> | <u>£'000</u> | <u>£'000</u> | <u>£'000</u> |
| Cash flows from operating activities | | | | |
| Receipts from customers | 120,338 | 109,064 | 8 | 1 |
| Payments to suppliers | (76,305) | (69,889) | (2,259) | (3,351) |
| Payments related to employees | (34,305) | (31,929) | (2,687) | (3,146) |
| Other operating receipts | 16 | - | - | - |
| Net (payments to)/receipts from group companies | <u>(88)</u> | <u>(494)</u> | <u>5,157</u> | <u>7,715</u> |
| Operating cash flow | 9,656 | 6,752 | 219 | 1,219 |
| Tax (payments)/receipt | <u>(236)</u> | <u>313</u> | <u>-</u> | <u>(17)</u> |
| Net cash generated from operating activities | <u>9,420</u> | <u>7,065</u> | <u>219</u> | <u>1,202</u> |
| Cash flows from investing activities | | | | |
| Purchase of property, plant and equipment | (7,647) | (8,314) | (6) | (11) |
| Purchase of intangible assets | (234) | (387) | (154) | (407) |
| Sale of property, plant and equipment | 789 | 752 | - | 3 |
| Acquisition of business combinations | (9) | - | (9) | - |
| Cash acquired with subsidiary undertakings | 119 | - | - | - |
| Costs associated with acquisition | (59) | - | - | - |
| Proceeds from disposal of subsidiary | 2,699 | - | - | - |
| Cash disposed with disposal of subsidiary | (126) | - | - | - |
| Interest and similar income from group companies | - | 189 | 520 | 533 |
| Dividends received | - | - | 3,000 | 2,000 |
| Dividends paid | - | (224) | - | - |
| Repayment of share capital | (10,000) | - | (10,000) | - |
| Loans granted to group companies | - | - | (3,227) | (2,362) |
| Loan repayments received from group companies | <u>-</u> | <u>4,740</u> | <u>1,413</u> | <u>-</u> |
| Net cash (used in) investment activities | <u>(14,468)</u> | <u>(3,244)</u> | <u>(8,463)</u> | <u>(244)</u> |
| Cash flows from financing activities | | | | |
| Payment of finance leases | (10) | (22) | - | - |
| Loans obtained from group companies | 1,654 | 11,043 | 2,689 | 6,000 |
| Loan repayments to group companies | (13,281) | - | (13,281) | (101) |
| Loans obtained from external parties | 25,625 | - | 25,625 | - |
| Loan repayments to external parties | (7,188) | (11,004) | (7,188) | (2,188) |
| Movements in group cash pool | - | - | 1,683 | (1,681) |
| Interest and similar costs to group companies | (300) | (651) | (300) | (520) |
| Interest and similar costs to external parties | <u>(535)</u> | <u>(692)</u> | <u>(279)</u> | <u>(203)</u> |
| Net cash generated from/(used in) financing activities | <u>5,965</u> | <u>(1,326)</u> | <u>8,949</u> | <u>1,307</u> |
| Net increase/(decrease) in cash and cash equivalents | 917 | 2,495 | 705 | 2,265 |
| Cash and cash equivalents at the beginning of the year | <u>1,797</u> | <u>(698)</u> | <u>1,374</u> | <u>(891)</u> |
| Cash and cash equivalents at the end of the year | <u>2,714</u> | <u>1,797</u> | <u>2,079</u> | <u>1,374</u> |

The accompanying notes form an integral part of these consolidated financial statements.

1. General information and Statement of compliance with IFRS

Vitacress Limited (the "Company") is a limited company incorporated and domiciled in the UK. The principal activity of the Company and its subsidiaries (the "Group") is the growing, procurement, packing and marketing of fresh produce.

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

On publishing the Parent Company Financial Statements together with the Group Financial Statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual Income Statement and related notes as part of these approved Financial Statements.

The address of the registered office is set out on the Company information page.

2. New and revised IFRS's

2.1 New and amended standards adopted by the Group

The Group has applied IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' for the first time in 2018. Details of the accounting policies applied under these standards are set out in the Significant Accounting Policies section (note 3) below.

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and it applies to all three aspects of financial instruments: classification and measurement; impairment; and hedge accounting. The Group applied IFRS 9 retrospectively. The effect of the transition on the current and prior period is not considered to be material to the financial statements of the company, and accordingly no adjustment is required to the comparative balances reported in these financial statements.

IFRS 15 supersedes IAS 11 'Construction Contracts' and IAS 18 'Revenue' and related interpretations and it applies to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group adopted IFRS 15 using the full retrospective method of adoption. The effect of the transition on the current and prior period is not considered to be material to the financial statements of the company, and accordingly no adjustment is required to the comparative balances reported in these financial statements.

2.2 Standards issued but not yet effective

At the date of authorisation of these Financial Statements, the following standards, which have not been applied in these financial statements, were adopted by the Group:

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

2. New and revised IFRS's – continued

2.2 Standards issued but not yet effective -continued

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

During 2018, the Group has performed a detailed impact assessment of IFRS 16. It is expected that the impact of IFRS 16 will increase assets and liabilities by an estimated £11.0m. Due to the adoption of IFRS 16, the Group's EBITDA will improve by an estimated £2.9m, while its interest expense will increase by £0.2m. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

3. Significant accounting policies

3.1 Basis of preparation

The Consolidated Financial Statements have been prepared on the historical cost basis except for certain properties, biological assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets. A summary of the Group accounting policies, which have been consistently applied across the Group, is set out below.

3.2 Basis of consolidation

The Group Financial Statements consolidate the Financial Statements of the Company and all entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Vitacress Limited obtains and exercises control through more than half the voting rights for all its subsidiaries. All subsidiaries have a reporting date of 31 December.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated Statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance, based on their respective ownership interests.

When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation of wholly owned subsidiaries.

3.2.1 Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3. Significant accounting policies – continued

3.3 Business combinations and goodwill

Business combinations are accounted for using the acquisition method under the revised IFRS 3 Business Combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed, including contingent liabilities, in a business combination regardless of whether they have been previously recognised in the acquiree's Financial Statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of the fair value 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 over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount is recognised immediately in the Income Statement as negative goodwill.

Differences between the cost of acquisition of investments in foreign subsidiaries and the fair value of their identifiable assets and liabilities as at the date of acquisition are recorded in their functional currencies and translated to the Group's functional currency at the exchange rates as of the Statement of Financial Position date. Exchange differences arising on this translation are recorded in equity as 'Translation reserves'.

Where the fair value of the identifiable assets and liabilities of Group companies exceeds the cost of the investments in these companies as of the date of their acquisition, the difference is recognised directly in the Income Statement or Statement of Comprehensive income.

Goodwill is not amortised but is subject to impairment tests at least annually. Impairment losses identified are immediately recorded in the Income Statement and are not subsequently reversed.

Goodwill arising on acquisitions prior to the date of transition to IFRS is maintained at the amounts recorded. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.4 Investment in Joint Ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Group's investments in its joint venture is accounted for using the equity method.

At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the Income Statement.

The Financial Statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

3. Significant accounting policies –continued

3.5 Foreign currency translation

The Consolidated Financial Statements are presented in the currency GBP, which is also the functional currency of the Company. The functional currency of the entities in the Group has remained unchanged during the reporting period. All financial information presented in GBP has been rounded to the nearest thousand.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate and forward contracts). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognised in the Income Statement.

In the Group's Financial Statements, all assets, liabilities and transactions of the Group entities with a functional currency other than GBP (the Group's presentational currency) are translated into GBP upon consolidation.

On consolidation, assets and liabilities have been translated into GBP at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentational currency at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit and loss and recognised as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into GBP at the closing rate.

3.6 Revenue recognition

The Group is in the business of providing watercress, baby leaf salads and other packaged fresh produce. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The company has concluded that it is the principal in its revenue arrangements as it typically controls the goods or services before transferring them to the customer.

3.6.1 Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The normal credit term is 30 to 60 days upon invoicing.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

The Group is in the business of growing, procurement, packing and marketing of fresh produce. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services. The Group has concluded that it is the principal in its revenue arrangements as it typically controls the goods or services before transferring them to the customer.

3. Significant accounting policies - continued

3.6 Revenue recognition - continued

3.6.2 Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of salads provide customers with a right of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

Right of return

Certain contracts provide a customer with a right to return the goods within a specified period. The Group uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Group recognises a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Volume rebates

The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Group then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

3.7 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3.7.1 The Group as lessor

Rental income from the operating leases of the Group's investment properties is recognised on a straight-line basis over the term of the relevant lease.

3.7.2 The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

3.8 Borrowing costs

Borrowing costs on loans obtained are recognised in the Income Statement on an accruals basis at the implicit interest rate.

3. Significant accounting policies – continued***3.9 Government grants***

Government grants are recognised at fair value when there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Government grants related to an expense item are recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

Government grants related to the purchase, construction or acquisition of non-current assets are recognised as deferred revenue in the Consolidated Statement of Financial Position and transferred to the Income Statement in proportion to the depreciation of the subsidised property, plant and equipment.

3.10 Retirement benefit costs

The Group provides post-employment benefits through defined contribution retirement benefit plans. Payments to defined contribution retirement benefit plans are recognised as an expense when the relevant employees have rendered service entitling them to the contributions.

3.11 Taxation

Income tax expense is determined based on the taxable income of the companies included in the consolidation and includes deferred taxation.

3.11.1 Current tax

Current tax is based on taxable profit/loss for the year (which differs from accounting profit/loss) of the companies included in the consolidation. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.11.2 Deferred tax

Deferred tax is calculated using the Statement of Financial Position method, and reflects the timing differences between the carrying amounts of assets and liabilities for financial reporting and their income tax bases. Deferred tax assets and liabilities are not recognised on timing differences resulting from goodwill and from the initial recognition of assets or liabilities unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised only when there is reasonable expectation that there will be sufficient future taxable income against which to use them. The carrying amount of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3.11.3 Current and deferred tax for the year

Current and deferred tax are recognised in the Income Statement, except when they relate to items that are recognised in Other Comprehensive Income (such as the revaluation of land) or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

3. Significant accounting policies - continued

3.12 Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the Consolidated Statement of Financial Position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the Income Statement, in which case the increase is credited to the Income Statement to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in the Income Statement to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in the Income Statement. There is an annual transfer between the revaluation reserve and retained earnings of the additional depreciation arising from the revaluation. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated. All other classes of property, plant and equipment excluding land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land) less their residual values over their useful economic lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Income Statement.

3.13 Investment property

Investment properties are land and properties held to earn income rentals or for capital appreciation, rather than for use in the production or supply of goods or services or for administration purposes or for sale in the ordinary course of business. Investment properties are measured at amortised cost. Like property, plant and equipment, investment properties are depreciated using the straight-line method. Expenses relating to investment properties in use such as maintenance repairs and insurance are recognised in the Income Statement of the period to which they refer.

An investment property is de-recognised upon disposal. Any gain or loss arising on de-recognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement in the period in which the property is de-recognised.

3.14 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives when the asset is brought into use. 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.

3. Significant accounting policies - continued***3.15 Impairment of tangible and intangible assets other than goodwill***

Assets are assessed for impairment at each Statement of Financial Position date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Whenever the book value of an asset exceeds its recoverable amount, an impairment loss is recognised in the Income Statement.

The recoverable amount of an asset is the higher of its net realisable value and its value in use. Net realisable value is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable parties, less costs of sale. Value in use is the present value of future cash flows from the continued use of an asset and its sale at the end of its useful life.

Impairment losses recognised in prior years are reversed when there are indications that the impairment losses no longer exist or have decreased. The reversal of impairment losses is recorded in the Income Statement. However, reversal of an impairment loss is recognised up to the amount that would have been recognised (net of depreciation or amortisation) had no impairment loss been recognised for that asset in prior years.

3.16 Biological assets

Growing crops are valued at fair value less costs to sell. Fair value is based on market prices of each crop less transport and other costs necessary to get the crop to market.

Biological assets are non-depreciable and the fair value changes are included in the Income Statement. These assets are classified as current assets because their life cycle is less than 12 months.

3.17 Inventories

Raw materials are stated at the lower of cost and net realisable value. Cost is determined using a weighted average cost method and includes the purchase price and all the expenses incurred to their reception into the warehouse.

Work in progress and Finished goods are valued at the lower of production cost and net realisable value. Cost includes the cost of raw materials incorporated, direct labour and production overheads.

Net realisable value is the estimated selling price in the ordinary course of the business, less applicable variable selling expenses. Accumulated inventory impairment losses reflect the difference between cost and net realisable value of inventories, as well as estimated impairment losses due to slow turnover, obsolescence and deterioration of inventories.

3.18 Assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition and management expect to complete a sale within one year from the date of classification. Assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3.19 Investments

Investments in subsidiary companies are stated at cost less any provision for impairment in value.

3. Significant accounting policies - continued**3.20 Financial assets and liabilities***3.20.1 Financial assets*3.20.1.1 Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

3.20.1.2 Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

In the current period the Group only holds Financial assets at amortised costs, Financial assets at fair value through OCI and Financial assets at fair value through profit and loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables, and loan to group companies.

3. Significant accounting policies - continued***3.20 Financial assets and liabilities - continued******Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

3.20.1.3 Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3. Significant accounting policies – continued***3.20 Financial assets and liabilities – continued******3.20.1.4 Impairment of financial assets***

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

3.20.2 Financial liabilities***3.20.2.1 Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and derivative financial instruments.

3. Significant accounting policies – continued***3.20 Financial assets and liabilities – continued******3.20.2.2 Subsequent measurement***

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

3.20.2.3 Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

3. Significant accounting policies – continued

3.21 Carbon emissions allowances

The Group has energy activities that are subject to the European carbon emissions trading scheme and is allocated carbon emissions allowances by the UK government. Where actual carbon emissions in the period are less than the allowances received (adjusted for allowances traded in the year), the unused allowances are recognised on the Statement of Financial Position at the lower of their original market value at the date of grant and their value at the date of the Statement of Financial Position and income to that value is recognised in the Income Statement. Where actual carbon emissions exceed the granted allowances in the year (adjusted for allowances traded in the year), a liability is recognised based on the fair value at the date of the Statement of Financial Position of the additional allowances required and is shown in the Income Statement as an expense. Sales during the year of allowances are recorded in the Financial Statements in 'Other income'.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgements in applying accounting policies

4.1.1 Going concern

In preparing the Financial Statements the directors have had regard to the fact that the Group generated a profit before tax from continuing operations in the financial year ended 31 December 2018 of £5,589,000 (2017 restated: £3,800,000). A key judgment is the appropriateness of using the going concern basis in preparing the Financial Statements. The directors are confident that the Group has adequate funding in place to support its future operations, for a period of at least 12 months from signing these Financial Statements.

4.2 Key sources of estimation uncertainty

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

4.2.1 Fair value of biological assets

The fair value of the Group's biological assets is comprised of three elements:

1. The estimated net sales value of those assets;
2. Less an estimate of the costs to bring those assets to maturity and the costs of harvesting them; and
3. Less an estimate of wastage due to a part grown crop not reaching maturity or not proving saleable for other reasons.

Discounted cash-flow techniques have not been applied as the time from planting to harvesting is typically very short, and always less than one year. Separate valuation models have been used for watercress, other leaf crops, tomatoes and herbs. The significant assumptions made in determining the fair value of the Group's biological assets are:

4. Critical accounting judgements and key sources of estimation uncertainty - continued**4.2 Key sources of estimation uncertainty - continued***4.2.1 Fair value of biological assets- continued*

- The expected yield, the length of the growing cycle, the build-up of costs within the growing cycle, wastage levels and the costs to harvest the crop.
- The expected yield is based upon agronomic experience of the growing conditions of specific crops in specific locations. Due to the short growing cycle these will be based on recent data. Where new crops are grown, yields are based upon general experience.
- All crops have a growing cycle which is dependent upon the intensity and length of the daylight. This means that there are different assumptions regarding the length of the growing cycle in different countries within the Group. The growing cycle for watercress is between six weeks and four months. For other leaf crops it is between five and ten weeks. Tomatoes have an annual planting; and cropping will occur throughout the last eight months of this growing cycle. The growing cycle for herbs is between four weeks to four months.
- The build-up of costs within the growing cycle is based upon past experience. Due to the way costs continue to build up throughout the growing cycle of tomatoes; this is the most significant assumption within the valuation methodology.
- The assumptions regarding wastage are based upon detailed experience of the losses experienced within the growing operations. No distinction is made between losses due to sales volatility, inclement weather or losses and disease within the farm.
- The costs to harvest are based upon past experience.
- For all crops, except for pot herbs, the sales price is the price of a bulk product of the appropriate crop. For pot herbs, the sales price is the average sales price across the customer base of a unit of the respective pot herb. An estimate for packing and distribution of these pots is then deducted.

4.2.2 Fair value of derivatives and other financial instruments

As described in note 31, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 31 provides information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

4.2.3 Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 3.3. The recoverable amount of the cash-generating unit has been determined based on value-in-use calculations. These calculations require the use of estimates (note 16.1).

4.2.4 Recoverability of trade receivables

For trade receivables and contract assets, the Group applies a simplified approach in calculating Expected Credit Loss (ECLs). Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

4.2.5 Revaluation of land and buildings

The Group carries both land and buildings at revalued amounts. These are updated periodically, using qualified independent Chartered Surveyors. The directors reviewed the land and building fair values as at 31 December 2018 and do not believe their value had changed materially enough to justify another revaluation.

5. Revenue

The following is an analysis of the Group's revenue for the year.

| | 2018 | 2017 restated |
|--|----------------|-------------------------|
| | £'000 | £'000 |
| Revenue from the sale of goods in the UK | 85,794 | 78,717 |
| Revenue from the sale of goods in Continental Europe | 27,364 | 24,946 |
| | <u>113,158</u> | <u>103,663</u> |

6. Employee benefit expense

Employee benefit expense is made up as follows:

| | 2018 | 2017 restated |
|------------------------------|---------------|-------------------------|
| | £'000 | £'000 |
| Wages and salaries | 27,952 | 27,076 |
| Social security cost | 3,399 | 3,178 |
| Pension contributions | 663 | 581 |
| End of contract compensation | 62 | 154 |
| Other personnel costs | 1,173 | 955 |
| | <u>33,249</u> | <u>31,944</u> |

Number of employees

| | 2018 | 2017 restated |
|-------------------------------|--------------|-------------------------|
| | Number | Number |
| Management and administration | 163 | 173 |
| Production and packing | 1,089 | 1,040 |
| Selling and distribution | 66 | 67 |
| | <u>1,318</u> | <u>1,280</u> |

Average monthly number of staff employed by the Group

7. Directors' emoluments

| | 2018 | 2017 |
|--|-------------|-------------|
| | £'000 | £'000 |
| Salary payments and other short-term employee benefits | 622 | 620 |
| Company contributions to defined contribution schemes | 40 | 41 |
| | <u>662</u> | <u>661</u> |

Four of the directors' emoluments were paid through Vitacress Limited in the year (2017: three). Two of the directors (2017: two) consider their services to the Group are incidental to their other activities within the wider RAR Group. Accordingly, their emoluments are paid by the intermediate parent company, RAR - Sociedade de Controle (Holding) SA. It is not possible to determine a specific allocation for services rendered to Vitacress Limited, and consequently their emoluments are not shown in the table above.

The aggregate emoluments of the highest paid director were £429,286 (2017: £394,000).

Retirement benefits are accruing to nil directors under a defined contribution pension scheme (2017: three).

8. Other operating income

| | 2018 | 2017 restated |
|---|--------------|-------------------------|
| | <u>£'000</u> | <u>£'000</u> |
| Operating lease rental income | 492 | 428 |
| Gain on sale of property, plant and equipment | 40 | 805 |
| Operational exchange gains | 1 | 55 |
| Government grants | 155 | 301 |
| Other income | 2,341 | 1,845 |
| | <u>3,029</u> | <u>3,434</u> |

9. Fees to auditors

| | 2018 | 2017 restated |
|---|--------------|-------------------------|
| | <u>£'000</u> | <u>£'000</u> |
| Audit of company Financial Statements | (24) | (26) |
| Audit of subsidiary Financial Statements | (116) | (101) |
| Provision of taxation compliance services | (51) | (50) |
| Fees paid for other services | (33) | (102) |
| | <u>(224)</u> | <u>(279)</u> |

10. Financial expenses

| | 2018 | 2017 restated |
|--------------------------------------|--------------|-------------------------|
| | <u>£'000</u> | <u>£'000</u> |
| Interest expense: | | |
| On bank borrowings at amortised cost | (171) | (231) |
| On obligations under finance leases | (1) | (1) |
| On intercompany loans | (374) | (370) |
| Other | (139) | (121) |
| Bank charges | (198) | (141) |
| Other financial expenses | (2) | (150) |
| | <u>(885)</u> | <u>(1,014)</u> |

11. Financial income and Income on joint venture company

| | 2018 | 2017 |
|---------------------------------|--------------|--------------|
| | <u>£'000</u> | <u>£'000</u> |
| Interest income: | | |
| On intercompany loans | 7 | 164 |
| Finance exchange gains | 30 | 25 |
| Income on joint venture company | 155 | 280 |
| | <u>192</u> | <u>469</u> |

12. Discontinued operations

On 30 May 2018, the Group entered into a sale agreement to dispose of Hortcilha – Agro Industria SA, which carried out all of the Group's activities of growing vegetables and nursery products in Portugal. The disposal was completed on 31 May, 2018, on which date control of Hortcilha – Agro Industria SA passed to the acquirer. At the end of May 2018 the Group also sold the essential assets of Margaret Nurseries San Martin, S.L. The disposal was completed on 31 May 2018, on which date the entity ceased trading.

Both disposals were effected as part of the Group's continued focus on salads and herbs. As a result, Margaret Nurseries San Martin, S.L. and its direct parent Vitacress Nurseries Limited have been classified as a discontinued operation in these financial statements. The comparatives have been restated accordingly.

Vitacress Sales Limited ceased trading by the end of reporting period of 2017 and has been continually considered as a discontinued operation.

The results for the discontinued operations are as follows:

| | 2018 | 2017 restated |
|---|----------------|-------------------------|
| | <u>£'000</u> | <u>£'000</u> |
| Revenue | 3,128 | 4,150 |
| Expenses | <u>(4,625)</u> | <u>(5,793)</u> |
| Operating (loss) | (1,497) | (1,643) |
| Finance income /(costs) | <u>597</u> | <u>(30)</u> |
| Trading (Loss) before tax from discontinued operations | (900) | (1,673) |
| Income tax credit: | | |
| Related to pre-tax loss/profit | <u>117</u> | <u>223</u> |
| Trading (Loss) after tax for the year from discontinued operations | (783) | (1,450) |
| (Loss)/ Gain on disposal of assets | (997) | 159 |
| (Loss) on disposal of subsidiary | (945) | - |
| Total (Loss) from discontinued operations | <u>(2,725)</u> | <u>(1,291)</u> |

Notwithstanding the one-line presentation for profit after tax for the year from discontinued operations on the face of the Consolidated Income Statement, discontinued operations remain consolidated in the Group Financial Statements, i.e., transactions between discontinued and continuing operations are eliminated as usual in the consolidation.

As a consequence, the amounts ascribed to the continuing and discontinued operations will be income and expense only from transactions with counterparties external to the Group. This means the results presented on the face of the Consolidated Income Statement will not necessarily represent the activities of the operations as individual entities, particularly when there has been significant trading between the continuing and discontinued operations.

If the trading between continuing and discontinued operations was not eliminated for the purpose of presenting a Consolidated Income Statement, then the results for continuing operations would be as below:

| | 2018 | 2017 restated |
|--|--------------|-------------------------|
| | <u>£'000</u> | <u>£'000</u> |
| Operating profit/(loss) for the year from continuing operations | 4,694 | 4,345 |
| Intercompany trading with discontinued operations | <u>110</u> | <u>1,581</u> |
| Restated operating profit for the year from continuing operations | <u>4,804</u> | <u>5,926</u> |

12. Discontinued operations - continued

The net cash flows incurred by the discontinued operations are as follows:

| | 2018 | 2017 |
|------------------------------------|--------------|--------------|
| | <u>£'000</u> | <u>£'000</u> |
| Operating | (3,407) | 433 |
| Investing | 3,130 | (252) |
| Financing | 419 | (320) |
| Net cash inflow / (outflow) | <u>142</u> | <u>(139)</u> |

13. Income tax credit/(expense)**13.1 Income tax recognised in the Income Statement**

| | 2018 | 2017 |
|--|--------------|--------------|
| | <u>£'000</u> | <u>£'000</u> |
| <i>Current tax (expense)</i> | | |
| Current year | (655) | (82) |
| Adjustments in respect of prior years | (23) | 15 |
| Total current tax (expense) | <u>(678)</u> | <u>(67)</u> |
| <i>Deferred tax credit/(charge)</i> | | |
| Current year | 159 | (197) |
| Adjustments in respect of prior years | 122 | 418 |
| Movement on change of rate of tax | (17) | 23 |
| Total deferred tax credit | <u>264</u> | <u>244</u> |
| Total income tax (expense)/credit recognised in Income Statement | <u>(414)</u> | <u>177</u> |

13.2 Reconciliation of tax charge

The income tax (expense)/credit for the year can be reconciled to the accounting profit/(loss) as follows:

| | 2018 | 2017 |
|--|----------------|---------------------------|
| | <u>£'000</u> | <u>restated £'000</u> |
| Profit before tax from continuing operations | 5,589 | 3,800 |
| (Loss) before tax from discontinued operations | <u>(2,842)</u> | <u>(1,514)</u> |
| Income tax (expense)/credit calculated at UK average corporation tax rate of 19.00% (2017: 19.25%) | (522) | (440) |
| Non-deductible expenses | (119) | (846) |
| Income not taxable | 30 | 814 |
| Adjustment in respect of prior years – current tax | 5 | 15 |
| Adjustment in respect of prior years – deferred tax | 98 | 418 |
| Movement on change of rate of tax | (14) | 23 |
| Other tax adjustments | (67) | 15 |
| Overseas taxation | 175 | 178 |
| Total consolidated income tax | <u>(414)</u> | <u>177</u> |
| Income tax (expense)/ credit recognised in the Consolidated Income Statement | (531) | (46) |
| Income tax credit attributable to discontinued operations | 117 | 223 |
| | <u>(414)</u> | <u>177</u> |

13. Income tax credit/(expense) – continued***13.2 Reconciliation of tax charge - continued***

No provision is made for any additional taxation which might arise on remittance of retained profits of overseas subsidiary companies because there is no intention in the foreseeable future that such profits will be remitted.

13.3 Factors affecting future tax charges

The main rate of corporation tax has been 19% since 1 April 2017. A reduction in the corporation tax rate to 17% from 1 April 2020 was enacted during 2016. All closing deferred tax balances have been valued at 17%, being the rate at which most balances are expected to reverse.

14. Property, plant and equipment

| Group | Land and natural resources | Buildings and other constructions | Plant and machinery | Vehicles | Office furniture and fittings | Other tangible assets | Bearer assets | Work in progress | Total |
|---|---|--|--------------------------------|-----------------|--|--------------------------------------|--------------------------|-----------------------------|--------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| <i>Cost or valuation</i> | | | | | | | | | |
| Balance at 1 January 2018 | 15,393 | 46,250 | 61,543 | 1,801 | 2,533 | 830 | 259 | 2,241 | 130,850 |
| Additions | - | 406 | 2,272 | 3 | 88 | 3 | 77 | 4,843 | 7,692 |
| Additions from acquisition | - | 755 | 1,076 | - | - | 210 | - | - | 2,041 |
| Disposals | (682) | (6) | (3,421) | (170) | (263) | (208) | (199) | - | (4,949) |
| Disposals of subsidiary | (192) | (4,655) | (4,734) | (106) | (73) | (12) | - | - | (9,772) |
| Revaluation written off | - | (1,709) | (607) | - | - | - | - | - | (2,316) |
| Effect of foreign currency exchange differences | 79 | 33 | 20 | 4 | 6 | (3) | - | 6 | 145 |
| Transfers | 175 | 942 | 1,621 | - | 127 | 69 | - | (2,366) | 568 |
| Balance at 31 December 2018 | 14,773 | 42,016 | 57,770 | 1,532 | 2,418 | 889 | 137 | 4,724 | 124,259 |
| <i>Accumulated depreciation and impairment</i> | | | | | | | | | |
| Balance at 1 January 2018 | 2,570 | 22,732 | 47,043 | 1,786 | 2,132 | 700 | 115 | - | 77,078 |
| Acquisition of subsidiary | - | 125 | 404 | - | - | 46 | - | - | 575 |
| Eliminated on disposals of assets | - | (6) | (2,471) | (170) | (263) | (209) | (141) | - | (3,260) |
| Eliminated on disposals of subsidiary | (14) | (2,489) | (3,255) | (106) | (70) | (11) | - | - | (5,945) |
| Eliminated on revaluation written off | - | (607) | (276) | - | - | - | - | - | (883) |
| Depreciation expense | 20 | 1,677 | 3,525 | 10 | 210 | 75 | 78 | - | 5,595 |
| Effect of foreign currency exchange differences | 21 | 39 | 31 | 3 | 5 | (3) | 1 | - | 97 |
| Transfers | - | 92 | - | - | - | - | - | - | 92 |
| Balance at 31 December 2018 | 2,597 | 21,563 | 45,001 | 1,523 | 2,014 | 598 | 53 | - | 73,349 |
| Carrying amount 31 December 2018 | 12,176 | 20,453 | 12,769 | 9 | 404 | 291 | 84 | 4,724 | 50,910 |

14. Property, plant and equipment-continued

| Group | Land and natural resources | Buildings and other constructions | Plant and machinery | Vehicles | Office furniture and fittings | Other tangible assets | Bearer assets | Work in progress | Total |
|---|----------------------------|-----------------------------------|---------------------|----------|-------------------------------|-----------------------|---------------|------------------|---------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| <i>Cost or valuation</i> | | | | | | | | | |
| Balance at 1 January 2017 | 15,023 | 41,787 | 56,680 | 2,083 | 2,648 | 763 | 203 | 2,853 | 122,040 |
| Additions | - | 246 | 2,899 | 2 | 113 | 3 | 60 | 5,529 | 8,852 |
| Disposals | (50) | (536) | (474) | (316) | (436) | - | (4) | - | (1,816) |
| Effect of foreign currency exchange differences | 420 | 678 | 680 | 31 | 33 | - | - | 24 | 1,866 |
| Transfers | - | 4,075 | 1,758 | 1 | 176 | 64 | - | (6,165) | (91) |
| Balance at 31 December 2017 | 15,393 | 46,250 | 61,543 | 1,801 | 2,534 | 830 | 259 | 2,241 | 130,851 |
| <i>Accumulated depreciation and impairment</i> | | | | | | | | | |
| Balance at 1 January 2017 | 2,460 | 20,810 | 43,421 | 2,042 | 2,322 | 677 | 51 | - | 71,783 |
| Eliminated on disposals of assets | - | (482) | (473) | (316) | (432) | - | (2) | - | (1,705) |
| Depreciation expense | 21 | 1,990 | 3,549 | 29 | 211 | 23 | 66 | - | 5,889 |
| Effect of foreign currency exchange differences | 89 | 415 | 546 | 31 | 30 | - | - | - | 1,111 |
| Transfers | - | (1) | - | - | 1 | - | - | - | - |
| Balance at 31 December 2017 | 2,570 | 22,732 | 47,043 | 1,786 | 2,132 | 700 | 115 | - | 77,078 |
| Carrying amount 31 December 2017 | 12,823 | 23,518 | 14,500 | 15 | 402 | 130 | 144 | 2,241 | 53,773 |

14. Property, plant and equipment - continued**Company**

| | Office furniture and fittings | Work in progress | Total |
|---|--|-----------------------------|--------------|
| | £'000 | £'000 | £'000 |
| <i>Cost or valuation</i> | | | |
| Balance at 1 January 2018 | 212 | 1 | 213 |
| Additions | 1 | 5 | 6 |
| Disposals | (136) | - | (136) |
| Transfers | 6 | (6) | - |
| | <u>83</u> | <u>-</u> | <u>83</u> |
| Balance at 31 December 2018 | | | |
| | <u>83</u> | <u>-</u> | <u>83</u> |
| <i>Accumulated depreciation and impairment</i> | | | |
| Balance at 1 January 2018 | 192 | - | 192 |
| Depreciation expense | 14 | - | 14 |
| Eliminated on disposals | (136) | - | (136) |
| | <u>70</u> | <u>-</u> | <u>70</u> |
| Balance at 31 December 2018 | | | |
| | <u>70</u> | <u>-</u> | <u>70</u> |
| Carrying amount 31 December 2018 | <u>13</u> | <u>-</u> | <u>13</u> |
| | | | |
| | Office furniture and fittings | Work in progress | Total |
| | £'000 | £'000 | £'000 |
| <i>Cost or valuation</i> | | | |
| Balance at 1 January 2017 | 273 | 2 | 275 |
| Additions | 10 | 1 | 11 |
| Disposals | (73) | - | (73) |
| Adjustments to asset classifications | 2 | (2) | - |
| | <u>212</u> | <u>1</u> | <u>213</u> |
| Balance at 31 December 2017 | | | |
| | <u>212</u> | <u>1</u> | <u>213</u> |
| <i>Accumulated depreciation and impairment</i> | | | |
| Balance at 1 January 2017 | 243 | - | 243 |
| Depreciation expense | 20 | - | 20 |
| Eliminated on Disposals | (71) | - | (71) |
| | <u>192</u> | <u>-</u> | <u>192</u> |
| Balance at 31 December 2017 | | | |
| | <u>192</u> | <u>-</u> | <u>192</u> |
| Carrying amount 31 December 2017 | <u>20</u> | <u>1</u> | <u>21</u> |

14. Property, plant and equipment – continued**14.1 Useful economic lives**

The following useful economic lives are used in the calculation of depreciation.

| | |
|----------------------------------|-------------------|
| Buildings and other construction | 10 – 50 years |
| Plant and machinery | 3 – 10 years |
| Vehicles | 4 – 7 years |
| Office furniture and fittings | 3 – 10 years |
| Tools | 3 – 7 years |
| Reusable containers | 3 – 7 years |
| Other tangible assets | 3 – 50 years |
| Bearer assets | 2 – 6 years |
| Equipment under finance lease | Life of the lease |

Work in progress comprises assets that, once complete, will be disclosed within one of the other property, plant and equipment headings, and the assets will be depreciated in line with useful economic life for that heading.

14.2 Freehold land and buildings carried at revalued amounts

An independent valuation of the Group's freehold land and buildings was performed to determine their fair values as at 31 December 2014. UK freehold land and buildings were valued by Smiths Gore, external Chartered Surveyors, and Quinton Edwards, external Chartered Surveyors, and freehold land and buildings in Portugal were valued by American Appraisal, external valuers. The valuations, which conformed to International Valuation Standards, were determined by reference to recent market transactions on arm's length terms.

The directors reviewed the land and building fair values as at 31 December 2018 and do not believe their value had changed materially enough to justify another revaluation.

Included in the Group's land and buildings are assets held at revalued amounts with a net book value of £14,548,000 (2017: £18,739,000).

Had these assets been measured on a historical cost basis, their carrying amount would have been as follows.

| | Group 2018 | Group 2017 |
|--|-----------------------|-----------------------|
| | <u>£'000</u> | <u>£'000</u> |
| Land and natural resources | | |
| Cost at 31 December | 1,996 | 2,861 |
| Buildings and other constructions | | |
| Cost at 31 December | 13,833 | 18,354 |
| Accumulated depreciation at 31 December | (10,813) | (11,676) |
| Carrying value at historic cost of buildings and other constructions | <u>3,020</u> | <u>6,678</u> |
| Total carrying value at historic cost | <u>5,016</u> | <u>9,539</u> |

15. Investment property

| | Group 2018 | Group 2017 |
|---|-----------------------|-----------------------|
| | <u>£'000</u> | <u>£'000</u> |
| <i>Cost</i> | | |
| Balance at 1 January | 610 | 610 |
| Transfers | <u>(610)</u> | <u>-</u> |
| Balance at 31 December | <u>-</u> | <u>610</u> |
| <i>Accumulated depreciation and impairment</i> | | |
| Balance at 1 January | 134 | (125) |
| Depreciation expense | - | (9) |
| Transfers | <u>(134)</u> | <u>-</u> |
| Balance at 31 December | <u>-</u> | <u>(134)</u> |
| Carrying amount at 31 December | <u>-</u> | <u>476</u> |

It was concluded that above properties no longer meet the definition of investment property under IAS 40. As a result, these properties were reclassified as property, plant and equipment.

16. Goodwill

The Company has no goodwill. Details of the goodwill relating to the Group is as follows:

| | Group 2018 | Group 2017 |
|---|-----------------------|-----------------------|
| | <u>£'000</u> | <u>£'000</u> |
| <i>Cost</i> | | |
| Balance at 1 January | 15,602 | 15,602 |
| Acquisition through business combinations (note 18.1) | <u>1,596</u> | <u>-</u> |
| Carrying amount at 31 December | <u>17,198</u> | <u>15,602</u> |

16. Goodwill - continued**16.1 Annual impairment review**

For the purposes of annual impairment testing, goodwill is allocated to the following cash-generating units (CGUs), this Grouping aligns the units expected to benefit from the synergies of the business combination with the associated goodwill.

| | 2018 | 2017 |
|--------------------------|---------------|---------------|
| | <u>£'000</u> | <u>£'000</u> |
| Vitacress Salads Limited | 8,927 | 8,927 |
| Vitacress Herbs Limited | 6,675 | 6,675 |
| Vitacress Real | <u>1,596</u> | <u>-</u> |
| | <u>17,198</u> | <u>15,602</u> |

The recoverable amount of the CGUs were determined based on pre-tax value-in-use calculations, covering a detailed five year forecast, followed by an extrapolation of expected pre-tax cash flows for the each CGU's remaining useful life using the growth rates stated below. The growth rates reflect the long-term average growth rates for the industries in which the CGUs operate. Management's key assumptions included stable profit margins based on past performance and its expectations of market development. The pre-tax discount rate used reflects the specific risks relating to the Vitacress Group at those points in time.

The key assumptions used for the value-in-use calculations are as follows:

| | 2018 | 2017 |
|-------------------------------|-------------|-------------|
| <i>Long-term growth rate:</i> | | |
| Vitacress Salads Limited | 1% | 1% |
| Vitacress Herbs Limited | 1% | 1% |
| Vitacress Real | 1% | - |
| <i>Pre-tax discount rate:</i> | | |
| Vitacress Salads Limited | 5.7% | 6.9% |
| Vitacress Herbs Limited | 5.7% | 6.9% |
| Vitacress Real | 5.7% | - |

The directors believe that there are no reasonably foreseeable circumstances in which this goodwill would be impaired.

17. Other intangible assets

| Group | Software | Software work in progress | Intangible on acquisition of VHBUs | Unused carbon credits | Research and development | Total |
|---|----------|---------------------------|------------------------------------|-----------------------|--------------------------|-------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost | | | | | | |
| Balance at 1 January 2018 | 4,389 | 399 | 2,866 | 109 | - | 7,763 |
| Additions and allocations | 49 | 227 | - | 22 | 18 | 316 |
| Additions from subsidiary | - | - | - | - | 81 | 81 |
| Disposals and usages | (69) | - | - | (84) | - | (153) |
| Effect of foreign currency exchange differences | 7 | - | - | 101 | - | 108 |
| Transfers | 439 | (439) | - | - | - | - |
| Balance at 31 December 2018 | 4,815 | 187 | 2,866 | 148 | 99 | 8,115 |
| Accumulated amortisation and impairment | | | | | | |
| Balance at 1 January 2018 | 2,655 | - | 2,866 | - | - | 5,521 |
| Additions from subsidiary | - | - | - | - | 23 | 23 |
| Amortisation expense | 629 | - | - | - | 4 | 633 |
| Eliminated on disposals of assets | (67) | - | - | - | - | (67) |
| Effect of foreign currency exchange differences | 7 | - | - | - | - | 7 |
| Balance at 31 December 2018 | 3,224 | - | 2,866 | - | 27 | 6,117 |
| Carrying amount at 31 December 2018 | 1,591 | 187 | - | 148 | 72 | 1,998 |
| | Software | Software work in progress | Intangible on acquisition of VHBUs | Unused carbon credits | Research and development | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost | | | | | | |
| Balance at 1 January 2017 | 4,329 | 102 | 2,866 | 120 | - | 7,417 |
| Additions and allocations | 53 | 334 | - | 19 | - | 406 |
| Disposals and usages | (150) | - | - | (53) | - | (203) |
| Effect of foreign currency exchange differences | 29 | - | - | 23 | - | 52 |
| Transfers | 128 | (37) | - | - | - | 91 |
| Balance at 31 December 2017 | 4,389 | 399 | 2,866 | 109 | - | 7,763 |
| Accumulated amortisation and impairment | | | | | | |
| Balance at 1 January 2017 | 2,179 | - | 2,866 | - | - | 5,045 |
| Amortisation expense | 605 | - | - | - | - | 605 |
| Eliminated on disposals of assets | (150) | - | - | - | - | (150) |
| Effect of foreign currency exchange differences | 21 | - | - | - | - | 21 |
| Balance at 31 December 2017 | 2,655 | - | 2,866 | - | - | 5,521 |
| Carrying amount at 31 December 2017 | 1,734 | 399 | - | 109 | - | 2,242 |

17. Other intangible assets - continued

| Company | Software | Software work in progress | Total |
|---|-----------------|--|--------------|
| | £'000 | £'000 | £'000 |
| <i>Cost</i> | | | |
| Balance at 1 January 2018 | 516 | 342 | 858 |
| Additions and allocations | 16 | 138 | 154 |
| Disposals | (4) | (420) | (424) |
| Balance at 31 December 2018 | 528 | 60 | 588 |
| <i>Accumulated amortisation and impairment</i> | | | |
| Balance at 1 January 2018 | 304 | - | 304 |
| Amortisation expense | 90 | - | 90 |
| Disposal | (2) | - | (2) |
| Balance at 31 December 2018 | 392 | - | 392 |
| Carrying amount at 31 December 2018 | 136 | 60 | 196 |

| | Software | Software work in progress | Total |
|---|-----------------|--|--------------|
| | £'000 | £'000 | £'000 |
| <i>Cost</i> | | | |
| Balance at 1 January 2017 | 491 | - | 491 |
| Additions and allocations | - | 367 | 367 |
| Transfers | 25 | (25) | - |
| Balance at 31 December 2017 | 516 | 342 | 858 |
| <i>Accumulated amortisation and impairment</i> | | | |
| Balance at 1 January 2017 | 222 | - | 222 |
| Amortisation expense | 82 | - | 82 |
| Balance at 31 December 2017 | 304 | - | 304 |
| Carrying amount at 31 December 2017 | 212 | 342 | 554 |

Amortisation of software is calculated on the basis of a useful life of between 3 and 5 years.

18. Investments in subsidiaries and joint venture

| Company | 2018 | 2017 |
|------------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Investments balance at 1 January | 66,098 | 66,098 |
| Impairment * | (350) | - |
| Additions (note 18.1) | 9 | - |
| Investments balance at 31 December | <u>65,757</u> | <u>66,098</u> |

*In May 2018 Vitacress Nurseries sold the trade and assets of its subsidiary Margaret Nurseries San Martin SL (MNSM). In May 2018 Vitacress Nurseries sold Hortilha – Agro Industria SA to a third party. The Company has therefore impaired its investment in Vitacress Nurseries to reflect these disposals.

Group

The Group share of Income Statement and other comprehensive income of Vitacress Real BV ("Real") up to the 30 September 2018 is:

| | 2018 | 2017 |
|--|--------------|-------------|
| | £'000 | £'000 |
| Group's share of income and total comprehensive income | 155 | 337 |
| Gain on step acquisition * | <u>1,588</u> | <u>-</u> |
| | <u>1,743</u> | <u>337</u> |

* due to stepped acquisition, fair value adjustment results in a gain of £1,588,000 to be recognised in the Consolidated Statement of Income, which is calculated as the difference between the book value of the investment already held and the fair value of that investment at the acquisition.

18.1 Business combination**Year ended 31 December 2018**

On 28 September 2018 Vitacress Limited acquired an additional 0.1% share capital of Vitacress Real B.V. ("Real"), a company in which it previously held a 50% investment as a Joint Venture, for a total consideration of €10,000/£9,000. This was satisfied by cash of €10,000 paid on 26 September 2018. Both Parties signed the new agreement, replacing the joint-venture agreement dated 16 February 2012.

Real conducts the provision of sourcing, packing and marketing of fresh herbs in the Netherlands for sale across Benelux and Germany. The acquisition of controlling shares by Vitacress Limited enhances the partnership and promotes the presence of Vitacress Group in the market of Northern Europe.

From the date of acquisition to 31 December 2018, Real contributed £3.3m revenue and £0.05m profit after tax to the results of the Group. If the combination happened at the beginning of the year, the consolidated profit of the group would have increased by £0.4m and revenues from continuing operations would have increased by £12.5m.

18. Investments in subsidiaries and joint venture – continued**18.1 Business combinations - continued**

The fair values prescribed are considered to be final.

| | €'000 | Fair value £'000 (1.127) |
|---|-------------|--------------------------------|
| Net Assets Acquired; | | |
| Intangible assets | 65 | 58 |
| Property, plant and equipment | 1,652 | 1,466 |
| Inventories | 316 | 280 |
| Trade and other receivables | 1,027 | 912 |
| Cash and cash equivalents | 134 | 119 |
| Trade and other payables | (1,790) | (1,589) |
| Corporation tax | (62) | (55) |
| Interest bearing loans and borrowings | (242) | (215) |
| | <hr/> 1,100 | <hr/> 976 |
| Fair value of previously Held Shares of 50% | (2,340) | (2,076) |
| Non-controlling interests acquired (49.9% x £976,000) | (549) | (487) |
| Goodwill (partial goodwill method) | <hr/> 1,799 | <hr/> 1,596 |
| | 10 | 9 |
| Satisfied by: | | |
| Cash | <hr/> 10 | <hr/> 9 |

Non-controlling interest have been measured at the non-controlling interest in net assets excluding goodwill.

18.2 Investments in subsidiaries and joint venture – continued

The Company holds the following investments in trading subsidiaries and joint ventures (of which only Vitacress Nurseries Limited (previously known as Wight Salads Group Limited), Vitacress Salads Limited, Vitacress Herb Limited and Vitacress Real BV represent direct holdings):

| Name of subsidiary | Principal activity | Place of incorporation and operation | Proportion of ownership interest and voting power held by the Group | |
|---|---------------------------------------|--------------------------------------|---|------|
| | | | 2018 | 2017 |
| Vitacress Salads Limited | Produce salad crops | England & Wales | 100% | 100% |
| Vitacress Kent Limited | Produce salad crops | England & Wales | 100% | 100% |
| Vitacress Nurseries Limited (previously known as Wight Salads Group Limited) | Holding company | England & Wales | 100% | 100% |
| Vitacress Herbs Limited | Herb growing and packing | England & Wales | 100% | 100% |
| VAISA Agricultura Intensiva S.A. | Produce salad crops | Portugal | 100% | 100% |
| Vitacress Portugal S.A. | Produce salad crops | Portugal | 100% | 100% |
| Euralface Agricultura S.A. | Produce salad crops | Portugal | 100% | 100% |
| Vitacress Portugal SGPS S.A. | Holding company | Portugal | 100% | 100% |
| Hortililha – Agro Industria SA | Growing vegetables & nursery products | Portugal | 0% | 100% |
| Margaret Nurseries San Martin SL | Growing vegetables & nursery products | Spain | 100% | 100% |
| Vitacress España S.L. | Produce salad crops | Spain | 51% | 51% |
| Vitacress Real BV | Herb packing | Holland | 50.1% | 50% |

In 2018 an interim dividend of £nil was paid by Vitacress Espana S.L to the minority interest party (2017: 224,025).

19. Inventories

| | 2018 | 2017 |
|------------------|--------------|--------------|
| Group | £'000 | £'000 |
| Raw materials | 4,697 | 3,844 |
| Work in progress | 195 | 157 |
| Finished goods | 151 | 112 |
| | 5,043 | 4,113 |

The cost of inventories in the Group recognised as an expense during the year from continuing operations was £40,304,000 (2017 restated: £35,319,000).

The cost of inventories recognised as an expense in the Group includes £Nil (2017: £nil) in respect of write-downs of inventory to net realisable value.

20. Biological assets

| | Group 2018 | Group 2017 |
|--|-----------------------|-----------------------|
| | £'000 | £'000 |
| Fair value at 1 January | 4,954 | 4,198 |
| Gain from changes in fair value less costs to sell | 20,690 | 24,378 |
| Increases due to purchases | 17,421 | 16,856 |
| Decreases from harvest | (38,148) | (40,616) |
| Disposal | (1,131) | - |
| Exchange differences | 26 | 138 |
| Fair value at 31 December | 3,812 | 4,954 |

The fair value of biological assets comprise the following elements:

| | Group 2018 | Group 2017 |
|------------|-----------------------|-----------------------|
| | £'000 | £'000 |
| Tomatoes | - | 1,102 |
| Watercress | 583 | 637 |
| Herbs | 562 | 830 |
| Other leaf | 2,667 | 2,385 |
| | 3,812 | 4,954 |

The areas under cultivation in hectares were as follows:

| | Group 2018 | Group 2017 |
|------------|-----------------------|-----------------------|
| Tomatoes | - | 13.90 |
| Watercress | 19.00 | 38.10 |
| Herbs | 70.91 | 40.91 |
| Other leaf | 182.00 | 200.00 |
| | 271.91 | 292.91 |

21. Trade and other receivables

| Group | 2018 | 2017 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Trade receivables, gross | 8,003 | 8,306 |
| Allowance for doubtful debts | (147) | (118) |
| Trade receivables | 7,856 | 8,188 |
| Social security and other taxes | 1,161 | 1,941 |
| Current tax assets | - | 205 |
| Other debtors | 1,342 | 493 |
| Amounts owed by Group companies – trade (note 32.1) | 1,006 | 1,709 |
| Prepayments | 1,500 | 1,405 |
| | 12,865 | 13,941 |
| Company | 2018 | 2017 |
| | £'000 | £'000 |
| Amounts owed by Group companies – trade (note 32.1) | 566 | 666 |
| Prepayments | 153 | 296 |
| | 719 | 962 |

All amounts are short-term and repayable on demand. The net carrying amount of trade receivables is considered a reasonable approximation of fair value. All of the Group's trade and other receivables have been reviewed for indicators of impairment using the excepted credit loss model. Certain trade receivables were found to be (recovered)/impaired during the period and an allowance for doubtful debts of £24,000 (2017: £14,000) has been recorded within other operating expenses from continuing operations.

Trade receivables disclosed above include amounts that are past due at the end of the reporting year for which the Group has not recognised an additional allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable.

21.1 Age of trade receivables that are past due but not impaired

| Group | 2018 | 2017 |
|--------------|-------------|--------------|
| | £'000 | £'000 |
| 0-90 days | 254 | 1,583 |
| 91-180 days | 597 | 4 |
| >180 days | 46 | 34 |
| Total | 897 | 1,621 |

21.2 Movement in the allowance for doubtful debts

| | Group | Group |
|--|--------------|--------------|
| | 2018 | 2017 |
| | £'000 | £'000 |
| Balance at beginning of the year | 118 | 172 |
| Impairment losses recognised on receivables | 39 | (3) |
| Amounts written off during the year as uncollectible | - | (36) |
| Amounts recovered during the year | (10) | (16) |
| Foreign exchange translation gains and losses | - | 1 |
| Balance at end of the year | 147 | 118 |

21. Trade and other receivables – continued**21.2 Movement in the allowance for doubtful debts – continued**

Included in the allowance for doubtful debts are individually impaired trade receivables amounting to £nil (2017: £nil) which have been placed under liquidation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.

22. Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting year as shown in the Statement of Cash Flows can be reconciled to the related items in the Statement of Financial Position as follows:

| Group | 2018 | 2017 |
|------------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Cash and bank balances (note 26.1) | 2,719 | 1,796 |
| Bank overdrafts (note 26.3) | (5) | (1) |
| | <u>2,714</u> | <u>1,795</u> |
| Company | 2018 | 2017 |
| | £'000 | £'000 |
| Cash and bank balances (note 26.2) | 2,082 | 1,374 |
| Bank overdrafts (note 26.3) | (3) | - |
| | <u>2,079</u> | <u>1,374</u> |

23. Share capital

| Group and Company | 2018 | 2017 |
|--------------------------|-----------------|-----------------|
| | £'000 | £'000 |
| Share capital of £1 each | <u>(49,942)</u> | <u>(59,942)</u> |

Issued share capital comprises:

| | | |
|--|-----------------|-----------------|
| 49,941,593 (2017: 59,941,593) fully paid ordinary shares | <u>(49,942)</u> | <u>(59,942)</u> |
|--|-----------------|-----------------|

The paid-up ordinary share capital of the Company was reduced from £59,941,593 to £49,941,593 by cancelling and repaying 10,000,000 ordinary shares of £1 each in issue during the year.

Authorised ordinary share capital, which have a par value of £1, carry one vote per share and carry a right to dividends.

24. Other reserves**24.1 Revaluation reserve**

The revaluation reserve arises on the revaluation of freehold land and buildings. When revalued land or buildings are sold, the portion of the revaluation reserve that relates to that asset is transferred directly to retained earnings.

24.2 Cash flow hedge reserve

The cash flow hedge reserve reflects the effective portion of changes in the fair value of foreign currency forward contracts that qualify as hedging derivatives.

24.3 Other reserve

The other reserve represents goodwill on Vitacress Limited's acquisition of Wight Salads Group Limited. Predecessor accounting applied on transition to IFRS with effect from 1 January 2010 does not allow new goodwill to be created as there is no value added in restructuring a Group under common control. This excess sits within equity and will only crystallise on the sale of Wight Salads Group Limited.

24. Other reserves - continued**24.4 Foreign currency translation reserve**

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the Financial Statements of foreign operations. The reserve is dealt with in accordance with the accounting policy on foreign currency translation.

25. Dividends

A final dividend for 2018 had not been proposed prior to the approval of these Financial Statements and there is no intention to declare such a dividend (2017: £nil).

26. Financial assets and liabilities**26.1 Categories of financial assets and liabilities****Group**

| | 2018 | 2017 |
|---|-------------|-------------|
| | £'000 | £'000 |
| Financial assets | | |
| <i>Loans and receivables</i> | | |
| Trade receivables (note 21) | 7,856 | 8,188 |
| Social security and other taxes (note 21) | 1,161 | 1,941 |
| Current tax assets (note 21) | - | 205 |
| Other debtors (note 21) | 1,342 | 493 |
| Amounts owed by Group companies – trade (note 21) | 1,006 | 1,709 |
| Loans to Group companies (note 32.2) | 40 | 498 |
| Cash and cash equivalents (note 22) | 2,719 | 1,796 |
| | <hr/> | <hr/> |
| <i>Derivatives designated as cash flow hedging instruments (carried at fair value)</i> | | |
| Derivative financial instruments (note 26.4) | 36 | - |
| | <hr/> | <hr/> |
| Disclosed as: | | |
| Current | 14,160 | 14,830 |
| | <hr/> | <hr/> |

26. Financial assets and liabilities – continued**26.1 Categories of financial assets and liabilities – continued**

| | 2018 | 2017 |
|---|-----------------|-----------------|
| | £'000 | £'000 |
| Financial liabilities | | |
| <i>Financial liabilities measured at amortised cost</i> | | |
| Non-current: | | |
| Borrowings (note 26.3) | (25,178) | (26,267) |
| Finance lease obligations (note 29) | (1) | (11) |
| Current: | | |
| Borrowings (note 26.3) | (8,118) | (2,197) |
| Finance lease obligations (note 29) | (10) | (10) |
| Trade payables (note 27) | (15,312) | (13,501) |
| Social security and other taxes (note 27) | (928) | (1,125) |
| Other current liabilities (note 27) | (937) | (839) |
| Current tax liability | (444) | - |
| Amounts owed to Group companies – trade (note 27) | (207) | (252) |
| | <u>(51,135)</u> | <u>(44,202)</u> |
| <i>Derivatives designated as cash flow hedging instruments (carried at fair value)</i> | | |
| Derivative financial instruments (note 26.4) | - | (205) |
| | <u>(51,135)</u> | <u>(44,407)</u> |
| Disclosed as: | | |
| Current | (25,956) | (18,129) |
| Non-current | (25,179) | (26,278) |
| | <u>(51,135)</u> | <u>(44,407)</u> |

26.2 Categories of financial assets and liabilities

| Company | 2018 | 2017 |
|---|---------------|---------------|
| Financial assets | £'000 | £'000 |
| <i>Loans and receivables</i> | | |
| Loans to Group companies (note 32.2) | 21,726 | 20,190 |
| Amounts owed by Group companies - trade (note 21) | 566 | 666 |
| Cash and cash equivalents (note 22) | 2,082 | 1,374 |
| | <u>24,374</u> | <u>22,230</u> |
| Disclosed as: | | |
| Current | <u>24,374</u> | <u>22,230</u> |

26. Financial assets and liabilities – continued**26.2 Categories of financial assets and liabilities - continued**

| Company | 2018 | 2017 |
|---|-----------------|-----------------|
| Financial liabilities | £'000 | £'000 |
| <i>Financial liabilities measured at amortised cost</i> | | |
| Non-current: | | |
| Borrowings (note 26.3) | (21,610) | (22,452) |
| Current: | | |
| Borrowings (note 26.3) | (12,564) | (2,275) |
| Trade payables (note 27) | (407) | (399) |
| Social security and other taxes (note 27) | (198) | (166) |
| Other creditors (note 27) | (14) | (40) |
| Amounts owed to Group companies – trade (note 27) | (149) | (329) |
| | <u>(34,942)</u> | <u>(25,661)</u> |
| <i>Derivatives designated as cash flow hedging instruments (carried at fair value)</i> | | |
| Derivative financial instruments (note 26.4) | - | - |
| | <u>(34,942)</u> | <u>(25,661)</u> |
| Disclosed as: | | |
| Current | (13,332) | (3,209) |
| Non-current | (21,610) | (22,452) |
| | <u>(34,942)</u> | <u>(25,661)</u> |

26.3 Borrowings

Borrowings include the following liabilities:

| Group | 2018 | 2017 |
|--|-----------------|-----------------|
| | £'000 | £'000 |
| <i>Financial liabilities measured at amortised cost</i> | | |
| Bank overdrafts | (5) | (1) |
| Commercial paper | (8,113) | - |
| Bank loans (i) | - | (2,187) |
| Other bank loans (ii) | (17,548) | (7,218) |
| Loans from Group companies (note 32.3) | (7,630) | (19,058) |
| | <u>(33,296)</u> | <u>(28,464)</u> |
| Disclosed as: | | |
| Current | (8,118) | (2,197) |
| Non-current | (25,178) | (26,267) |
| | <u>(33,296)</u> | <u>(28,464)</u> |

26. Financial assets and liabilities – continued**26.3 Borrowings - continued**

| Company | 2018 | 2017 |
|--|-----------------|-----------------|
| | £'000 | £'000 |
| <i>Financial liabilities measured at amortised cost</i> | | |
| Bank overdrafts | (3) | - |
| Commercial paper | (8,113) | - |
| Bank loans (i) | - | (2,188) |
| Other loans (ii) | (17,439) | (5,000) |
| Loans from Group companies (note 32.3) | (8,619) | (17,539) |
| | <u>(34,174)</u> | <u>(24,727)</u> |
| Disclosed as: | | |
| Current | (12,564) | (2,275) |
| Non-current | <u>(21,610)</u> | <u>(22,452)</u> |
| | <u>(34,174)</u> | <u>(24,727)</u> |

- (i) Loans with banks are unsecured, attract an interest rate of 1% over the 3 month LIBOR rate and with a remaining maturity periods not exceeding 0 years (2017: 1 years). The loan was paid off in April 2018.
- (ii) Among other loans, £17.4m related to unsecured contracts with banks for commercial paper programmes with a maturity of 5 years (2017: 1 years). These loans attract an interest rate of 1-1.4% over the 3 month LIBOR rate.

26.4 Derivative financial instruments

The carrying amount of the Group and Company's financial instruments may be further analysed as follows:

| Group | 2018 | 2017 |
|--|-------------|--------------|
| | £'000 | £'000 |
| Fair value | | |
| Forward foreign exchange contracts – cash flow hedge | <u>36</u> | <u>(205)</u> |
| Net fair value of derivative financial (liabilities) | <u>36</u> | <u>(205)</u> |

All derivatives are measured at fair value. The fair value of forward foreign exchange contracts is provided by the counterparty and is determined using forward exchange rates at the Statement of Financial Position date.

The Group uses forward foreign exchange contracts to mitigate exchange rate exposure arising from highly probable purchases in Euros and US Dollars. All foreign exchange forward contracts have been designated as hedging instruments in cash flow hedges in accordance with IFRS 9. The forecast transactions for which hedge accounting has been used are expected to occur.

There was no significant ineffectiveness of cash flow hedges in 2017 or 2018.

27. Trade and other payables

| Group | 2018 | 2017 |
|---|-----------------|-----------------|
| | <u>£'000</u> | <u>£'000</u> |
| Trade payables | (15,312) | (13,501) |
| Social security and other taxes | (928) | (1,125) |
| Other creditors | (937) | (839) |
| Amounts owed to Group companies – trade (note 32.1) | (207) | (252) |
| Other current liabilities | (3,889) | (3,394) |
| Current tax liability | (444) | - |
| Deferred governments grants | <u>(141)</u> | <u>(254)</u> |
| | <u>(21,858)</u> | <u>(19,365)</u> |
| Company | 2018 | 2017 |
| | <u>£'000</u> | <u>£'000</u> |
| Trade payables | (407) | (399) |
| Social security and other taxes | (198) | (166) |
| Other creditors | (14) | (40) |
| Amounts owed to Group companies – trade (note 32.1) | (149) | (329) |
| Other current liabilities | <u>(428)</u> | <u>(647)</u> |
| | <u>(1,196)</u> | <u>(1,581)</u> |

The Group has been awarded a number of government grants conditional upon the construction of packhouses and continuing agricultural development. These grants, recognised as deferred income, are being amortised over the useful life of the assets to which they relate. Other current liabilities include the portion of government grants that will be recognised as income in the next year. Other non-current liabilities consists of the non-current portion of deferred government grants, as follows:

| Group | 2018 | 2017 |
|--------------|--------------|----------------|
| | <u>£'000</u> | <u>£'000</u> |
| Current | (141) | (254) |
| Non-current | <u>(349)</u> | <u>(1,295)</u> |
| | <u>(490)</u> | <u>(1,549)</u> |

28. Deferred tax assets and liabilities**28.1 Deferred tax balances**

The following is the analysis of deferred tax assets/(liabilities) presented in the consolidated Statement of financial position:

| Group | 2018 £'000 | 2017 £'000 |
|--------------------------|----------------------|----------------------|
| Deferred tax assets | 934 | 905 |
| Deferred tax liabilities | (2,626) | (2,829) |
| | (1,692) | (1,924) |
| | 2018 £'000 | 2017 £'000 |
| Company | | |
| Deferred tax assets | 16 | 15 |
| | 16 | 15 |

28.2 Deferred tax movement

| Group | Opening balance £'000 | Discontinued operations £'000 | Recognised in profit or loss £'000 | Recognised directly in equity £'000 | Closing balance £'000 |
|--|---------------------------------|---|--|---|---------------------------------|
| 2018 | | | | | |
| Deferred tax (liabilities)/assets in relation to: | | | | | |
| Cash flow hedge | 36 | - | (1) | (33) | 2 |
| Derivative financial instruments | 17 | - | (6) | - | 11 |
| Property, plant & equipment | (628) | 142 | 70 | - | (416) |
| Revaluations | (2,201) | (90) | 89 | (7) | (2,209) |
| Other short term timing differences | 852 | - | 60 | 8 | 920 |
| | (1,924) | 52 | 212 | (32) | (1,692) |
| 2017 | | | | | |
| Deferred tax (liabilities)/assets in relation to: | | | | | |
| Cash flow hedge | 11 | - | (1) | 26 | 36 |
| Derivative financial instruments | 23 | - | (6) | - | 17 |
| Property, plant & equipment | (378) | - | (245) | (5) | (628) |
| Revaluations | (2,242) | - | 89 | (48) | (2,201) |
| Other short term timing differences | 425 | - | 407 | 20 | 852 |
| | (2,161) | - | 244 | (7) | (1,924) |

28. Deferred tax assets and liabilities - continued**28.2 Deferred tax movement - continued**

| Company | Opening balance | Recognised in profit or loss | Recognised directly in equity | Closing balance |
|--|----------------------------|---|--|----------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| 2018 | | | | |
| <i>Deferred tax assets in relation to:</i> | | | | |
| Property, plant & equipment | 9 | 6 | - | 15 |
| Other short term timing differences | 6 | (5) | - | 1 |
| | <u>15</u> | <u>1</u> | <u>-</u> | <u>16</u> |
| | Opening balance | Recognised in profit or loss | Recognised directly in equity | Closing balance |
| | £'000 | £'000 | £'000 | £'000 |
| 2017 | | | | |
| <i>Deferred tax assets in relation to:</i> | | | | |
| Property, plant & equipment | 14 | (5) | - | 9 |
| Other short term timing differences | 4 | 2 | - | 6 |
| | <u>18</u> | <u>(3)</u> | <u>-</u> | <u>15</u> |

29. Obligations under finance leases**29.1 Leasing arrangements**

The Group has leased manufacturing equipment and vehicles under finance leases. The average lease term is 4 years (2017: 4 years). The Group has options to purchase the equipment for a nominal amount at the end of the lease term. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

No future sub lease income is expected to be received as all assets are used exclusively by the Group.

29.2 Finance lease liabilities, minimum lease payments

| Group | 2018 | 2017 |
|---|-------------|-------------|
| | £'000 | £'000 |
| Expiring in one year or less | (10) | (10) |
| Expiring between one and five years | <u>(1)</u> | <u>(12)</u> |
| Less: future finance charges | <u>-</u> | <u>1</u> |
| Present value of minimum lease payments | <u>(11)</u> | <u>(21)</u> |
| Disclosed as: | | |
| Current | (10) | (10) |
| Non-current | <u>(1)</u> | <u>(11)</u> |
| | <u>(11)</u> | <u>(21)</u> |

29. Obligations under finance leases – continued**29.3 Net book value of assets acquired through lease contracts**

| Group | 2018 | 2017 |
|-------------------------|--------------|--------------|
| | <u>£'000</u> | <u>£'000</u> |
| Manufacturing equipment | (23) | (37) |
| Vehicles | <u>(4)</u> | <u>(9)</u> |
| | <u>(27)</u> | <u>(46)</u> |

30. Retirement benefit plans

The Group and Company operate defined contribution pension schemes. The assets of the schemes are held separately from those of the Group and Company, in independently administered funds.

The total expense recognised in the Consolidated Income Statement from continuing operations of £663,000 (2017: £581,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2018, contributions of £81,000 (2017: £95,000) due in respect of the year had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting year.

31. Financial instruments**31.1 Financial risk management objectives**

The Group is exposed to various risks in relation to financial instruments. The main types of risk are market risk (specifically to currency risk and interest rate risk which result from its operating activities), credit risk and liquidity risk.

The Group's risk management is coordinated at its head office in close cooperation with the subsidiary company boards of directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The most significant financial risks to which the Group is exposed are described below.

31.2 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2015.

The capital structure of the Group consists of net debt (borrowings as detailed in note 26 offset by cash and bank balances) and equity of the Group (comprising issued share capital, reserves, retained earnings and non-controlling interests as detailed in notes 23 to 24).

The Group is not subject to any externally imposed capital requirements.

The Group manages its capital by regularly reviewing internal reports such as short and medium term cash flow forecasts and capital expenditure reports. Management use this information to assess the Group's capital availability against targets set by the Group parent company and manage it in line with the Group's objectives.

31. Financial instruments - continued**31.3 Market risk - foreign currency risk management**

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to fluctuating exchange rates arise. Exchange rate exposures are managed utilising forward foreign exchange contracts.

The carrying amounts of the Group and Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting year are as follows:

| Group | Assets | | Liabilities | |
|-----------|--------|-------|-------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Euro | 4,925 | 6,568 | (17,787) | (12,200) |
| US Dollar | - | - | (64) | (12) |

| Company | Assets | | Liabilities | |
|-----------|--------|-------|-------------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Euro | 6,577 | 2,116 | (6,872) | (1) |
| US Dollar | 2 | - | (3) | (19) |

31.3.1 Foreign currency sensitivity analysis

The Group is mainly exposed to the Euro and US Dollar currencies.

The following table details the Group and Company's sensitivity to a 5% increase and decrease in the GBP against the Euro and against the US Dollar. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where the GBP strengthens 5% against the relevant currency. For a 5% weakening of the GBP against the relevant currency, there would be a comparable impact on the profit, and the balances below would be negative.

| Group | Euro impact | | US Dollar impact | |
|--------------------|-------------|---------|------------------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Profit or loss (i) | 612 | 268 | 3 | 1 |
| Equity (ii) | 387 | (1,259) | 3 | 4 |

| Company | Euro impact | | US Dollar impact | |
|--------------------|-------------|-------|------------------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Profit or loss (i) | (14) | (101) | - | (1) |
| Equity (ii) | - | - | - | - |

(i) This is mainly attributable to the exposure outstanding on Euro and US Dollar denominated receivables and payables in the Group at the end of the reporting year.

(ii) This is as a result of the changes in fair value of derivative instruments designated as hedging instruments in cash flow hedges.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting year does not reflect the exposure during the year. Euro and US Dollar denominated purchases are seasonal, with lower volumes in the mid-quarters of the financial year, resulting in an increase in payables at the end of the reporting year.

31. Financial instruments – continued**31.3 Market risk - foreign currency risk management - continued***31.3.2 Forward foreign exchange contracts*

It is the policy of the Group to enter into forward foreign exchange contracts to cover highly probable forecast transactions. The total Euro denominated and US Dollar denominated purchases are forecast each month for 6 months ahead. The Group then takes a contract allowing the purchase of that quantity of Euros and US Dollars for a date 6 months ahead at a fixed rate. Although at the time of purchase fixed orders have not been placed, the expected payment profile can be predicted with a high degree of accuracy.

Fair value is determined by obtaining a market price valuation from the relevant broker.

The following table details the forward foreign currency (FC) contracts outstanding at the end of the reporting year:

| Group | Average exchange rate | | Foreign currency | | Notional value | | Fair value assets (liabilities) | |
|-------------------------|--------------------------|-------|---------------------|--------|-------------------|-------|------------------------------------|-------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | | | FC'000 | FC'000 | £'000 | £'000 | £'000 | £'000 |
| Cash flow hedges | | | | | | | | |
| Buy Euro | | | | | | | | |
| Less than 3 months | 0.901 | 0.909 | 8,470 | 8,619 | 7,630 | 7,836 | (13) | (172) |
| 3 to 6 months | 0.896 | 0.896 | 7,410 | 6,350 | 6,637 | 5,692 | 50 | (30) |
| Buy US Dollar | | | | | | | | |
| Less than 3 months | 0.794 | 0.773 | 77 | 98 | 61 | 76 | (1) | (3) |
| | | | | | | | 36 | (205) |
| Company | | | | | | | | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | | | FC'000 | FC'000 | £'000 | £'000 | £'000 | £'000 |
| Cash flow hedges | | | | | | | | |
| Buy Euro | | | | | | | | |
| Less than 3 months | - | - | - | - | - | - | - | - |
| 3 to 6 months | - | - | - | - | - | - | - | - |
| | | | | | | | - | - |

The Group has entered into contracts to purchase raw materials from suppliers in Europe and the USA. The Group has entered into forward foreign exchange contracts (for terms not exceeding 6 months) to hedge the exchange rate risk arising from these anticipated future purchases, which are designated as cash flow hedges.

For the year ended 31 December 2018, the aggregate amount of profits and losses under forward foreign exchange contracts recognised in other comprehensive income and accumulated in the cash flow hedging reserve relating to these anticipated future purchase transactions is a profit of £241,000 (2017: Loss of £154,000). It is anticipated that the purchases will take place during the first 6 months of the next financial year at which time the amount deferred in equity will be included in the carrying amount of the raw materials. It is anticipated that the raw materials will be converted into inventory and sold within 12 months after purchase, at which time the amount deferred in equity will be reclassified to the Income Statement.

31. Financial instruments - continued**31.4 Market risk - interest rate risk management**

The Group is exposed to interest rate risk through Group entities borrowing and lending funds at floating interest rates.

31.4.1 Interest rate sensitivity analysis

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/- 0.5% (2017: +/- 0.5%). These changes are considered reasonably possible based on observation of current market conditions. The calculations are based on change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. It assumes the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. All other variables are held constant.

| Group | + 0.5% | | -0.5% | |
|------------------|--------|-------|-------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Income Statement | 154 | 131 | (154) | (131) (i) |

(i) This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has increased during the current year as the absolute value of the interest bearing liabilities has risen during the year.

31.5 Credit risk management

The Group's exposure to credit risk is mainly associated with receivable accounts arising from operational activities. Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a loss for the Group.

The management of this risk seeks to guarantee an effective collection of its receivables without impact on the Group's financial equilibrium. This risk is controlled on a regular basis with the objective of (i) defining credit limits to customers based on credit checks undertaken, (ii) controlling the level of credit, and (iii) regularly reviewing and analysing accounts receivable.

Impairment losses on accounts receivable are computed considering (a) the risk profile of the customer, (b) the average collection period, which is different from business to business, and (c) the financial situation of the customer. The movements of these impairment losses during the years ended 31 December 2018 and 2017 are disclosed in note 21.

31.6 Liquidity risk management

Liquidity risk is the risk that the Group cannot meet or settle its obligations on time or at a reasonable price. Due to the existence of liquidity risk, management of liquidity is performed with the objective of ensuring permanent and efficient access to funds to fulfil commitments, minimising the probability of not being able to fulfil its commitments and minimising the opportunity cost of retaining excess liquidity in the short-term.

The Group manages liquidity risk by regularly reviewing internal reports such as daily, weekly and medium term cash flow forecasts and matching the maturity profiles of financial assets and liabilities. Management uses this information to ensure sufficient liquidity is available for the Group's day to day needs, from either the parent companies or third party sources.

31.6.1 Liquidity risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

31. Financial instruments - continued**31.6 Liquidity risk management - continued***31.6.1 Liquidity risk tables - continued*

| Group | Carrying amount £'000 | Contractual cash flows £'000 | 1 year or less £'000 | 1-5 years £'000 | 5+ years £'000 | Total £'000 |
|---|--------------------------------------|---|-------------------------------------|----------------------------|---------------------------|------------------------|
| 31 December 2018 | | | | | | |
| <i>Non-derivative financial liabilities</i> | | | | | | |
| Bank loans | - | - | - | - | - | - |
| Commercial paper | (8,113) | (8,254) | (8,254) | - | - | (8,254) |
| Other loans | (17,548) | (19,115) | (336) | (18,779) | - | (19,115) |
| Bank overdrafts | (5) | (5) | (5) | - | - | (5) |
| Loans from Group companies | (7,630) | (8,421) | (632) | (7,789) | - | (8,421) |
| Amounts owed to Group companies | (207) | (207) | (207) | - | - | (207) |
| Finance lease obligations | (11) | (12) | (11) | (1) | - | (12) |
| Trade payables | (15,312) | (15,312) | (15,312) | - | - | (15,312) |
| | (48,826) | (51,326) | (24,757) | (26,569) | - | (51,326) |
| 31 December 2017 | | | | | | |
| <i>Non-derivative financial liabilities</i> | | | | | | |
| Bank loans | (2,187) | (2,200) | (2,200) | - | - | (2,200) |
| Other loans | (7,218) | (7,826) | (153) | (7,673) | - | (7,826) |
| Bank overdrafts | (1) | (1) | (1) | - | - | (1) |
| Loans from Group companies | (19,058) | (21,126) | (414) | (20,712) | - | (21,126) |
| Amounts owed to Group companies | (252) | (252) | (252) | - | - | (252) |
| Finance lease obligations | (21) | (23) | (10) | (13) | - | (23) |
| Trade payables | (13,501) | (13,501) | (13,501) | - | - | (13,501) |
| | (42,238) | (44,929) | (16,531) | (28,398) | - | (44,929) |
| Company | Carrying amount £'000 | Contractual cash flows £'000 | 1 year or less £'000 | 1-5 years £'000 | 5+ years £'000 | Total £'000 |
| 31 December 2018 | | | | | | |
| <i>Non-derivative financial liabilities</i> | | | | | | |
| Bank loans | - | - | - | - | - | - |
| Commercial paper | (8,113) | (8,253) | (8,253) | - | - | (8,253) |
| Other loans | (17,439) | (18,988) | (332) | (18,656) | - | (18,988) |
| Bank overdraft | (3) | (3) | (3) | - | - | (3) |
| Loans from Group companies | (8,619) | (9,024) | (4,529) | (4,495) | - | (9,024) |
| Amounts owed to Group companies | (149) | (149) | (149) | - | - | (149) |
| Trade payables | (407) | (407) | (407) | - | - | (407) |
| | (34,730) | (36,824) | (13,673) | (23,151) | - | (36,824) |
| 31 December 2017 | | | | | | |
| <i>Non-derivative financial liabilities</i> | | | | | | |
| Bank loans | (2,188) | (2,200) | (2,200) | - | - | (2,200) |
| Other loans | (5,000) | (5,554) | (111) | (5,443) | - | (5,554) |
| Bank overdraft | - | - | - | - | - | - |
| Loans from Group companies | (17,539) | (19,433) | (466) | (18,967) | - | (19,433) |
| Amounts owed to Group companies | (329) | (329) | (329) | - | - | (329) |
| Trade payables | (399) | (399) | (399) | - | - | (399) |
| | (25,455) | (27,915) | (3,505) | (24,410) | - | (27,915) |

32. Related party transactions

The Group's immediate parent company is RAR – Sociedade de Controle (Holding) SA, a company registered in Portugal. Its ultimate parent company and controlling party is SIEL SGPS SA, a company registered in Portugal. SIEL SGPS SA owns 100% of RAR – Sociedade de Controle (Holding) SA. The address of its registered office and principal place of business is Rua Passeio Alegre 624, 4169-002, Porto, Portugal.

RAR – Sociedade de Controle (Holding) SA is both the largest and smallest Group to consolidate these Financial Statements, and copies of its consolidated Statements can be obtained from the address above.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

32.1 Trading transactions

During the year, Group entities entered into the following trading transactions with related parties that are not members of the Group:

| | Sales of goods and services rendered | | Purchases of goods and services received | |
|---------------|---|-------------|---|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Joint venture | - | 556 | - | - |
| | - | 556 | - | - |

Fellow subsidiaries are any subsidiaries of RAR – Sociedade de Controle (Holding) SA that are not also subsidiaries of Vitacress Limited. The joint venture in 2017 was with Vitacress Real B.V., however in 2018 Vitacress LTD took a controlling share of Vitacress Real B.V and from the 1st of October 2018 it has been treated as a subsidiary. The Immediate parent company is RAR – Sociedade de Controle (Holding) SA. The ultimate parent company is SIEL SGPS SA.

The following balances were outstanding at the end of the reporting period:

| Group | Amounts owed by related parties | | Amounts owed to related parties | |
|-------------------|--|-------------|--|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Fellow subsidiary | - | - | (16) | (31) |
| Joint venture | - | 206 | - | - |
| Immediate parent | - | 93 | (112) | (217) |
| Ultimate parent | 1,006 | 1,410 | (79) | (4) |
| | 1,006 | 1,709 | (207) | (252) |
| Company | Amounts owed by related parties | | Amounts owed to related parties | |
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Fellow subsidiary | - | - | - | - |
| Subsidiary | 566 | 483 | (45) | (129) |
| Joint venture | - | 183 | - | - |
| Immediate parent | - | - | (104) | (200) |
| | 566 | 666 | (149) | (329) |

Purchases of goods and services were made on terms equivalent to those that prevail in arm's length transactions. The amounts outstanding are un-secured, interest free trading balances repayable in accordance with the standard terms of trade. No guarantees have been given or received. No expense has been recognised in the current or prior years for bad or doubtful debts in respect of the amounts owed by related parties.

32. Related party transactions – continued**32.2 Loans to related parties**

| Group | 2018 | 2017 |
|------------------|-------------|-------------|
| | £'000 | £'000 |
| Joint venture | - | 107 |
| Immediate parent | 40 | 391 |
| | <u>40</u> | <u>498</u> |

Loans to related parties within the RAR Group are unsecured and attract interest at a fixed rate of 2.25% (2017: 2.5%) above the 3 months LIBOR ruling in the month preceding the month in which the loan was made. The loans are considered by management to be short-term and are repayable on demand.

| Company | 2018 | 2017 |
|------------------|---------------|---------------|
| | £'000 | £'000 |
| Immediate parent | - | - |
| Subsidiary | 21,726 | 20,083 |
| Joint venture | - | 107 |
| | <u>21,726</u> | <u>20,190</u> |

32.3 Loans from related parties

| Group | 2018 | 2017 |
|------------------|----------------|-----------------|
| | £'000 | £'000 |
| Immediate parent | <u>(7,630)</u> | <u>(19,058)</u> |

| Company | 2018 | 2017 |
|------------------|----------------|-----------------|
| | £'000 | £'000 |
| Subsidiary | (4,448) | (88) |
| Immediate parent | <u>(4,171)</u> | <u>(17,451)</u> |
| | <u>(8,619)</u> | <u>(17,539)</u> |

Loans from related parties within the RAR Group are unsecured and attract interest at a fixed rate of 2.25% (2017: 2.5%) above the 3 months LIBOR or EURIBOR ruling in the month preceding the month in which the loan was made. The loans are considered by management to be short-term and are repayable on demand, except for loans granted from RAR Holding to Vitacress Limited which have a maturity of 5 years but can be repaid after 1 year.

32.4 Key management compensation

Key management comprises the executive directors of the parent and subsidiary companies. The compensation paid or payable to key management for employee services is shown in note 7.

32. Related party transactions – continued**32.5 Other related party transactions**

In addition to the above, there were the following non-trading transactions.

| | Group 2018 | Group 2017 | Company 2018 | Company 2017 |
|---|-----------------------|-----------------------|-------------------------|-------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Tax losses (claimed)/surrendered | - | (23) | 74 | (24) |
| Management fee charged to subsidiaries for certain administrative services | - | - | 5,300 | 5,320 |
| Management fee charged to joint venture for certain administrative services | - | 180 | - | 180 |
| Service charge from fellow subsidiaries for certain administrative services | (136) | (145) | (26) | (26) |
| Management charge from RAR for certain administrative services | (893) | (821) | (893) | (821) |
| Dividend received from subsidiaries | - | - | 3,000 | 2,000 |
| Repayment of share capital to immediate parent | (10,000) | - | - | - |
| Interest received on loans to Group companies | 6 | 162 | 527 | 469 |
| Interest received on loans to joint ventures | - | 2 | - | 6 |
| Interest paid on loans from Group companies | (367) | (406) | (387) | (378) |
| | <u>(11,390)</u> | <u>(1,051)</u> | <u>7,595</u> | <u>6,726</u> |

33. Operating lease arrangements**33.1 The Group as lessee***33.1.1 Leasing arrangements*

Operating leases relate to leases of land, buildings, vehicles and equipment with lease terms of between 2 and 5 years. The Group does not have an option to purchase the leased assets at the expiry of the lease periods.

| | Group 2018 | Group 2017 | Company 2018 | Company 2017 |
|---|-----------------------|-----------------------|-------------------------|-------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| <i>33.1.2 Payments recognised as an expense</i> | | | | |
| Minimum lease payments | <u>2,422</u> | <u>2,450</u> | <u>68</u> | <u>106</u> |
| <i>33.1.3 Non-cancellable operating lease commitments</i> | | | | |
| | <u>£'000</u> | <u>£'000</u> | <u>£'000</u> | <u>£'000</u> |
| Not later than 1 year | 1,812 | 1,962 | 62 | 88 |
| Later than 1 year and not later than 5 years | 5,605 | 2,916 | 108 | 189 |
| Later than 5 years | <u>795</u> | <u>1,359</u> | <u>-</u> | <u>-</u> |
| | <u>8,212</u> | <u>6,237</u> | <u>170</u> | <u>277</u> |

33. Operating lease arrangements – continued**33.2 The Group as lessor***33.2.1 Leasing arrangements*

Operating leases relate to an area rented out in the Runcton site to a third party.

33.2.2 Non-cancellable operating lease receivables

| Group | 2018 | 2017 |
|---|-------------|-------------|
| | £'000 | £'000 |
| Not later than 1 year | 201 | 201 |
| Later than 1 year and not longer than 5 years | 167 | 371 |
| | <u>368</u> | <u>572</u> |

34. Commitments for expenditure

As at 31 December 2018 the Group had committed to purchase 558,500 therms of gas in 2018 at a value of £340,974 average rate of 61.05 pence per therm (2017: 590,500 therms of gas at a value of £268,115, an average rate of 48.01 pence per therm).

In addition, the following capital commitments existed at the year end:

| | Group 2018 | Group 2017 | Company 2018 | Company 2017 |
|--|-----------------------|-----------------------|-------------------------|-------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| For the acquisition of property, plant and equipment | <u>1,073</u> | <u>651</u> | <u>-</u> | <u>-</u> |

35. Contingent assets and contingent liabilities

The Group has no contingent assets or liabilities (2017: £nil).

36. Events after the reporting period

There are no events after the reporting period that require disclosure in these Financial Statements.